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RURAL HOUSING

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

RICHLAND, GA

JULY 28, 1990

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RURAL HOUSING

SATURDAY, JULY 28, 1990

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to notice, at 9:30 a.m., in the Parks Memorial Library, 122 Wall Street, Richland, GA, Hon. Terry Sanford, and Hon. Wyche Fowler, Jr., co-presiding.

Present: Senators Sanford and Fowler.

Staff present: Steve Humphreys and Matt Churchill.

OPENING STATEMENT OF MAYOR McCLENDON

Mayor MCCLENDON. Ladies and gentlemen, if all of you will go ahead take your seats, we want to go ahead and try to get started on time. I understand the senators have a heavy schedule.

We want to welcome Senator Fowler and Senator Sanford. We want to thank them for coming here. We understand they may have had to call this off—they have done a lot of hard work, and we want to thank them for what they did for the Farm Bill. Thank you all.

There are quite a few elected officials around here, so, gentlemen, if you all do not mind just stand and identify yourselves. There are so many here we cannot recognize all of you, so if you all will just stand and recognize the elected officials, and give us your name.

Mr. GREEN. I am Gerald Green, the State Representative for this particular area.

Mayor MCCLENDON. Nice to see you, Jerry.

Mr. TIMMONS. State Senator Jimmy Timmons from this district.

Mr. BROWN. George Brown, City Council.

Sheriff HOUSE. Bill House, Sheriff.

Mayor MCCLENDON. I understand there are several more on the outside.

Mr. WATSON. Paul Watson, City Council, Richland.

Mr. MILLER. Bill Miller, Chattahoochee County Commission.

Mr. MONTGOMERY. Jack Montgomery.

Mayor LAWHORN. Thomas Lawhorn, Mayor of the City of Sylvester.

Mayor MCCLENDON. Do we have any others that we may have missed?

I want to welcome all of you, and if we could we want to go ahead and try to get started.

OPENING STATEMENT OF SENATOR FOWLER

Senator FOWLER. Mayor McClendon, thank you very much, and let me on behalf of Senator Sanford and myself, thank so many of you for joining us on Saturday morning on an extraordinarily important issue. I am deeply pleased that so many of my colleagues in public service, commissioners and mayors, representative Green, Senator Timmons and others have joined us.

I come out of city government, I am a city councilman at heart. That is where I began, as many of you know, and I know who really does the work and who is on the front lines. People have to think two or three times before they spend $30 calling me and Senator Sanford when they are mad at us, but when you have got a problem at the local level, whether it be housing or dead cats, or stopped sewers, I know who gets called first, so I am really pleased to see so many.

I was the night mayor, that is when I got my start. Ivan Allen, Mayor Allen of Atlanta, let me answer the telephones at night and, of course, I gave myself a fancy title, I sold myself—I was just out of the Army—as a duty officer. I thought it was terrible if people called the city hall and just got a recording.

I said "You cannot do that, look at all these people that do not have fancy secretaries trying to pay their light bill, have got problems, and somebody needs to be down here answering the telephones."

Mayor Allen said "That is a wonderful idea. What fool can we get to do it?" And that is where I started my career, and I will never forget, Senator Sanford, my first week after I got all the publicity and made Mayor Allen mad, I got this call. This fellow says "Where is Fowler?" I said "Here I am." He says "Fowler, there is a dead cat out here in the front of the road, come and get him." And I said "Where do you live?" He says "I live—" this is the truth now—"I live on Wilacoochee Boulevard." Wilacoochee is a town just right over here.

And I said—at that time I was 26 years old—I said "Wilacoochee, how in the world do you spell that?" He says "W-i-l . . . Wait a minute, I will find out and call you back." Bam! [Laughter.]

About 2 minutes later the phone rings again. He says "Fowler." "Yeah." "Fowler!" "Yeah!" "Are you going to come out here and get this cat, or not?" I said "I cannot come and get the cat until you spell the name of the road that he is on." He says "He is now on Lee Street, L-e-e." [Laughter and applause.]

As the mayor told you, Senator Sanford and I, in the Farm Bill debate yesterday we did about twenty or thirty amendments, and we were actually afraid that we were not going to be able to make it, but thankfully we scrambled around and finished the bill, by the way, yesterday about 6 o'clock, so we now have a 5-year authorization coming out of the Senate on the Farm Bill, and we expect the House to pass a similar bill next week, so I hope that will be good news for our region. It was not easy, but it was done, and we had an awful lot of help and support from farmers and people interested in all of agricultural matters from Georgia.

I really want to thank Senator Sanford whom you know by reputation, and many of you have met for the first time, for arranging

his schedule—you can imagine the calls on his time in North Carolina—for making this extra effort to join me and to be in Georgia this morning.

In June the Senate passed the National Affordable Housing Act, and it was not only a major piece of housing legislation, but made far more so because of the additions and amendments and creativity and concern from Senator Terry Sanford of North Carolina.

He authored the Rural Housing Revitalization Act and had many of its provisions included in the Senate housing bill. Senator Sanford also called for restoring much of the funds cut from the Farmers Home Housing Programs in the 1991 budget resolution.

It was my privilege to support Senator Sanford in both of these efforts, and I look forward to continuing of course to work with him as we must address the problems of substandard housing, overcrowding, limited financing, excessive housing costs, and especially those that burden rural Americans.

Adequate housing is essential to establishing and maintaining strong, self-sustaining communities. That makes addressing rural housing problems one of the highest priorities, in my opinion, of rural development.

At this hearing we intend to examine a number of ways we can do that. We will, of course, consider the budget needs for rural housing and the priorities for the funds that are available to us. We want to look at encouraging greater participation by lenders others than Farmers Home, and we will have as I understand some interesting proposals in that regard presented by our witnesses today.

In the longer run, I happen to think it will be important to continue a discussion that I started with Secretary Jack Kemp about the best ways for HUD and Farmers Home to complement each other, work with each other.

We also need to take a close look at the coordination between Federal, State and local efforts, since that is one of the central parts of our new housing bill.

One important aspect of that coordination has to be the development of local institutions that can assess local needs, call attention to them, and begin the process of focusing assistance to address to those needs.

Nonprofit organizations have been used for that purpose with a good deal of success in urban areas, and today we will discuss the potential for building similar institutions in rural areas.

Clearly, we can never devote enough Federal assistance to solve this problem alone. We need to establish rural development and rural housing as a much higher priority. We need to build a commitment to this effort that extends throughout our society and our country, public and private, from Congress through the local community level.

I am pleased very much to welcome my colleague, Senator Sanford, who I am sure will have a few opening remarks, and then we will go to our witnesses.

OPENING STATEMENT OF SENATOR SANFORD

Senator SANFORD. Thank you, Senator Fowler.

I am certainly delighted to have an occasion again to be in Georgia and to be here with Senator Fowler.

I should say to his home folks that in my opinion Senator Fowler is the best thing that has happened to the United States Senate in a long time. He started there with a remarkable amount of energy, a strong background and an understanding of the problems, and I reckon I understand now how he got his drive. Anybody that would be a duty officer in Atlanta is bound to have his ambition sharpened to do something else. [Laughter.]

He has a great deal of wisdom and certainly experience. If you keep him up in Washington he will be a real giant in the Senate in the tradition of Senator George, Senator Russell and others from Georgia. I look forward to and am satisfied that he will move in that tradition, and so I am glad to be here with him today.

Now, we are here for a genuine purpose. It serves no purpose at all for us to come down here and say "Well, we are working on some housing legislation, and here is what we have done." That is not important.

Our business is to design Federal legislation and to oversee Federal legislation to see how we can make it work more effectively. So today we have come to listen, to learn, and to get your ideas.

I have got a long statement that I do want in the record, but I don't want to read it and take up your time with that. However, I would like to mention a few propositions that frame this hearing.

One is that decent and affordable housing serves in my opinion as the foundation for improving the overall quality of life in rural America. We have to start there.

Second, for too long the non-metropolitan parts of the country have been ignored by the Federal Government, and sort of left to shift for themselves, and maybe to languish in poverty without a lot of help. Now in many parts of the country, in North Carolina, and I am sure Georgia, they face despair.

The Farmers Home Administration is the government agency designed to do something about housing in rural America, and over the years it has done a good job. Right now most people would say that Farmers Home could do a better job, primarily because we have not provided it enough money. In the last 10 years we have cut in half the money furnished the Farmers Home for their various good programs. When funds are cut, certain programs get left out, and we want to find ways of bringing back to vitality those programs.

We certainly need to press for more money, and we have already done that. We added $600 million for the programs over 3 years. That sounds like a lot of money but really is only a drop in the bucket. You could use $600 million more right here in 3 years in Georgia.

We are working on increasing funding and we want to get it back up to the level that we have had in the past. I think you can look at what has happened, the fact that we have not made any progress in solving the rural housing crisis and I think a lack of resources is one of the main reasons. We want to do something about it.

We also want to bring in nonprofit participation. The present administration talks about this kind of effort and we have had it in

the law. We want to talk today about how we can make it work better than it has worked in the past.

We have tried out demonstration projects. It has always been my feeling that you ought not to do something nationwide just because it sounds like a good idea until you try it out, and so we have included in the law demonstration partnerships between the private sector and the public sector. Senator Fowler and I have supported an amendment in the Senate housing bill that provides a set-aside for rural rental housing for nonprofit organizations, and we would like to see how we might give more emphasis to that.

I am interested in hearing comments on that idea and on other things that we have included in these various programs.

Certainly I think the Federal Government has the unique responsibility to make the secondary market work better than it has worked.

And then we want to find ways to enhance State participation. Georgia has begun to do some good things, and we would like to know more about that and how we might involve States in a more direct way.

I think if we had had the States with their big rural populations more heavily involved in past years we would not have seen these Federal programs slip from the attention and the support of the Federal Government.

So we are here, and I thank Senator Fowler for his leadership in all of these affairs that apply to rural America, and I am pleased to be here.

Senator FOWLER. Thank you for those kind words, Terry.

[The prepared statement of Senator Sanford follows:]

OPENING STATEMENT OF SENATOR TERRY SANFORD
Senate Budget Committee Field Hearing on Rural Housing
July, 28, 1990 -- Richland, Georgia

Rural Housing Needs and Opportunities

Mr. Chairman, I want to thank you for inviting me to attend this very important hearing today in Richland. I do not get the opportunity often enough to visit the fine State of Georgia, and I cannot think of a better way to spend my visit than to discuss the needs and opportunities in rural housing.

I also want to extend my welcome to the distinguished witnesses that we have before us today. I look forward to hearing your testimony and your candid comments on the federal role in rural housing assistance.

Last year at this time I held a field hearing on rural housing in Elizabeth City, North Carolina to prepare for the introduction of the Rural Housing Revitalization Act. I cannot stress enough the importance of getting out of Washington and hearing from the experts in the field -- the people who have first-hand knowledge of the condition of rural housing, the availability of rural credit, and the effectiveness of federal assistance efforts.

Today we have the opportunity to hear from a variety of perspectives on rural housing. Testimony will be given by federal and state government representatives, nonprofit

advocates and practitioners, and witnesses from financial institutions. It promises to be a very interesting and enlightening discussion.

Decent and affordable housing serves as a foundation for improving the overall quality of life in rural America. Rural housing assistance efforts must be undertaken as part of a comprehensive total development package that includes infrastructure development, educational improvement, and the expansion of employment opportunities. To meet these needs the Senate Budget Committee must establish rural development and rural housing as a priority of the Federal Government.

For too long, the nonmetropolitan areas of the country have been ignored by the Federal Government and left to languish in poverty and despair. The quality of health care and education falls well below acceptable levels, while unemployment and poverty have hit alarming levels. The condition of rural housing is particularly disturbing. According to the Congressional Research Service, 7.2 million rural households have serious housing problems ranging from substandard units, to overcrowding, to excessive cost-burdens.

In my home state of North Carolina, 45% of the residents live in rural areas and far too many have housing problems. North Carolina ranks second in the nation in occupied

substandard housing units, and rural North Carolinians are four times as likely to live in houses that lack indoor water and bathroom facilities than those living in urban areas. One rural county in the State has more occupied homes without complete plumbing than the entire State of Wyoming.

The Farmers Home Administration provides the primary source of federal housing assistance in rural areas, and in general it has done an excellent job of helping people obtain decent housing. Since 1949, FmHA has helped over 2 million people obtain housing worth $450 billion in value. The rural housing programs are strictly targetted and cost-effective, and the system of county, district, and state offices brings federal assistance within reach of most rural communities.

The key obstacle to the success of FmHA rural housing programs has been the lack of federal funding. The appropriation for the programs has been cut nearly in half since 1980 creating tremendous backlogs in demand. Nationwide, two in three applications for single family homeownership loans are denied due to low funding levels. The wait for rural rental housing assistance now extends to between two and three years.

My primary goal in introducing the Rural Housing Revitalization Act was to increase funding for the Farmers Home Administration rural housing programs. And I am pleased

that the housing bill which recently passed the Senate authorizes an additional $600 million for the programs over three years. This is a start in the right direction. However, these funds must still be appropriated in a time of extreme budgetary constraint.

Of course, the Farmers Home Administration rural housing programs are not perfect. The programs have often failed to reach small, isolated rural communities that lack the infrastructure and the housing development capacity to apply for FmHA funds. My legislation begins to address this problem by establishing a set aside of rural housing loan funds for communities underserved by the Federal Government that have high levels of poverty and substandard housing. The Senate-passed housing bill enacts into law a current Farmers Home Administration demonstration program for underserved areas that is similar to the program in my bill. I look forward to hearing how this program works in Georgia.

Far too often, FmHA administrators have also been hesitant to fund legitimate applications from nonprofit housing developers. In North Carolina, a farmworker housing application by the North Carolina Council of Churches is now the subject of a law suit, and other nonprofits have complained about administrative interference in the self-help housing program. I understand that nonprofits have made very few if any applications for Farmers Home assistance in

Georgia and that is disturbing. Perhaps additional resources must be directed toward outreach and technical assistance for nonprofit groups. At the minimum, FmHA officials must encourage nonprofits to participate in the programs and eliminate any administrative barriers.

Nonprofit participation has also been inhibited by the inability of community organizations to obtain the technical assistance and resources necessary to develop housing assistance capacity. To meet this need, the Rural Housing Revitalization Act creates a small grant program to help nonprofits in underserved areas prepare grant applications for rural housing funds. I am pleased that the Senate bill incorporated this proposal. The Housing Assistance Council has recommended an expansion of capacity development efforts, and I believe their proposal deserves serious consideration.

My legislation also creates a demonstration program to catalyze joint efforts between the public, nonprofit, and private sectors to develop rural rental housing. I want to commend the Housing Assistance Council for their work on a 515 partnership with Fannie Mae and with the Human Development Council of Clinton, North Carolina. I think that we can learn a great deal from that example.

Senator Fowler and I also supported an amendment on the Senate housing bill which establishes a set aside of rural

rental housing funds for nonprofit organizations. Nonprofits have an outstanding record in the Section 515 program and this amendment creates a readily available pool of funds for eligible nonprofit applications.

Under the current program, nonprofits have a difficult time competing for Section 515 funds due to a backlog in applications which creates a two year delay in application processing. During this time, each applicant must have control of the site for a proposed 515 project and have the resources to update market information on the project. While many nonprofits have the ability to develop and manage a rural housing project, few have the resources to wait out the two-year processing period. This set aside should help nonprofits with legitimate applications to obtain funding from the Farmers Home Administration. I am very interested to hear comments on this provision.

The Farmers Home Administration can only provide assistance to some five percent of rural borrowers. The vast majority of rural households utilize conventional mortgage financing or other federal guarantee programs. Little data exists on the availability of rural credit, but anecdotal evidence suggests that a serious mortgage credit gap faces the rural borrowers.

The savings and loan crisis has hit rural areas very

hard. Between 1983 and 1987, the number of solvent thrift institutions in rural areas dropped by 20%, and in December 1987, 574 rural counties lacked a Savings and Loan. According to the National Rural Housing Coalition, rural residents on average pay a half-percent more in interest charges than urban homeowners, and they repay their loans in 21 years as opposed to the urban average of 29 years. On a $50,000 mortgage, these conditions increase monthly payments by almost 15 percent.

Mortgage credit availability is also restricted by high downpayment requirements and low lender participation rates in federal guarantee programs. One of the key goals of the Federal Government must be to encourage the participation of rural lenders in federal guarantee programs by eliminating urban-oriented underwriting criteria and burdensome paperwork that discourage lender involvement.

The Federal Government must also work to increase secondary market access for rural home loans. The recent creaton of the Federal Agricultural Mortgage Corporation, or Farmer Mac, provides a real opportunity in this respect. However, I understand that Farmer Mac will rely largely on the urban-oriented underwriting criteria of Fannie Mae and Freddie Mac for housing loans. Farmer Mac is also limited to home loans in communities with less than 2,500 people.

We must also look at other financing arrangements to expand mortgage credit in rural areas. Mr. Raines testimony will cover one such alternative, the expansion of the Farm Credit System for rural home loans. The Farmers Home Administration has also recommended replacing a large portion of their direct loan program with a guarantee program. I am concerned that this program will not work, given the low participation of rural lenders in federal guarantee programs and the past history of FmHA with guaranteed loan programs. However, I do support testing this approach through a guaranteed program for moderate-income homebuyers if funding is provided in addition to current funding for the direct loan programs.

We also must not forget the crucial role that the states play in promoting rural housing efforts. The North Carolina Housing Finance Agency now is a major player in North Carolina rural housing efforts, and the Georgia Residential Finance Authority also has an impressive record in this area.

Mr. Chairman, housing and credit problems in rural America are extremely severe, but we have the resources and the expertise to make vast improvements. This hearing provides an important forum for airing innovative rural housing proposals and beginning the process of providing decent, affordable housing to all rural residents.

Senator FOWLER. All right. We will have our first panel. Please come on up to the table—you know who you are—while I get organized.

Senator SANFORD. Well, they do not know, but they have got their little cards with them.

Senator FOWLER. I see. [Laughter.]

Well, where is the thing here? Here we go.

Tom Harris, the Farmers Home State Director, Mr. Loza of the Housing Assistance Council, and Mr. Huckaby of the Georgia Residential Finance Authority.

As these gentlemen know, and ladies and gentlemen, this is an official hearing of the United States Senate Budget Committee—both Senator Sanford and I serve on the Budget Committee—we have the testimony of these gentlemen, and what I would like to ask you to do is to summarize as best you can so we can leave the maximum time for discussion and questions and observations. Of course, your complete remarks will be a part of the record.

Senator SANFORD. You are going to start in what order?

Senator FOWLER. Mr. Harris, why do not we start with you.

Mr. HARRIS. Thank you, Senator.

Senator FOWLER. This is Tom Harris, the Farmers Home Administration State Director.

STATEMENT OF THOMAS M. HARRIS, GEORGIA STATE DIRECTOR, FARMERS HOME ADMINISTRATION, U.S. DEPARTMENT OF AGRICULTURE; ACCOMPANIED BY WAYNE HOWELL, CHIEF OF RURAL HOUSING, AND WAYNE ROGERS

Mr. HARRIS. Thank you, Senator.

You do have my full testimony, so I will just be brief in the interest of time.

We have one of the largest and most successful rural housing programs in the country, along with the State of North Carolina. We are very proud of it.

We use practically—well, we use more funds than we are allocated practically every year, and we are committed to working with you and all the players in rural housing. I have been here a very short few months, and have already begun to outreach to all those.

We will be happy to answer any questions. I have Wayne Howell, our Chief of Rural Housing, with me today.

[The prepared statement of Mr. Harris follows:]

TESTIMONY OF
THOMAS M. HARRIS, GEORGIA STATE DIRECTOR
FARMERS HOME ADMINISTRATION
UNITED STATES DEPARTMENT OF AGRICULTURE
Before the
SENATE BUDGET COMMITTEE
Columbus, Georgia
July 28, 1990

Thank you, Mr. Chairman, and Members of the Committee. I appreciate this opportunity to be with you today to discuss the Farmers Home Administration's rural housing program in Georgia.

Our total portfolio includes almost 35,000 loans with outstanding principal of more than $1.5 billion. Farm loans account for almost $780 million. Housing, with almost 26,000 loans, amounts to more than $804 million. Community and business loans make up the rest of the portfolio.

Our housing program in Georgia is active and successful. In the 1989 fiscal year, the year in which I became state director, we obligated more funds in all our major programs than was originally allocated. This was made possible with help from reserve funds in the National Office in Washington.

For example, in the Section 502 single-family housing program, obligations totaled $42.4 million, or almost 112 percent of the allocation. Seventy-nine percent went to new construction and 21 percent for existing homes.

In the Section 515 rural rental housing program, obligations totaled $23 million, 121 percent of the allocation. All of it went to finance new construction.

In the Section 504 home repair program, grants totaled $443,500, or 111 percent of the allocated amount. Home repair loans amounted to only $161,000 or 42 percent of the amount available. Unfortunately, these loans are sometimes beyond the reach of the needy people who are unable to repay even a 1-percent loan.

Housing preservation grants totaled $446,250, all of which was used to improve existing homes. In this case, obligations totaled only 75 percent of the allocation.

Thus far this fiscal year, obligations for single-family home loans total more than 39 million, 99 percent of the amount available; rural rental housing loans total over $19 million, 100 percent of the allocation; home repair grants stand at over $400,000, 101 percent of the allocation; home repair loans total almost $214,770 or 60 percent -- we are making extra effort this year -- and all of the $595,000 allocated for home preservation grants has been obligated.

Allocations for this fiscal year are $39.6 million for single-family housing, $19.7 million for rental housing, $400,000 for home repair grants, and $362,000 for home repairs loans.

For all practical purposes all funds allocated to Georgia have been obligated, with the exception of 504 funds and we expect this to be used by the end of this year.

New construction accounts for more than 81 percent of this year's single-family loans through June, and all of the multi-family loans are for new construction.

In addition to the regular housing programs, five counties in Georgia are participating in a 100-county FmHA rural housing targeting and demonstration project.

This effort provides additional funding and outreach emphasis for "underserved" counties. An underserved county, in this case, is measured by its quantity of substandard housing and the number of households with income below 50 percent of the state's median.

More that $400,000 has been committed to single-family, multi-family and home repair loans in the five Georgia counties, which are Clay, Hancock, Marion, Stewart and Taliferro.

Mr. Chairman, we are committed to using all the housing funds made available to Georgia in a responsible manner. In doing this, we will continue to work closely with the Georgia Council for Rural Housing and Development, the Georgia Home Builders Rural Council, and others interested in rural housing in Georgia.

We are willing to participate with nonprofit organizations, as authorized by statute, in the development of needed housing units that are properly secured based on an appraisal.

We have recently received an application for a nonprofit project, the first such application, I am told, that the Georgia FmHA has received in a decade. We are now analyzing the application.

This completes my prepared statement. I will be happy to answer any questions you might have. Thank You!

Senator SANFORD. Why do not you sort of run through your programs and your various sections just for the benefit of everybody to give us a scope of what Farmers Home does.

Mr. HARRIS. Well, we have Section 502 Single-family Housing Programs for Rural Americans;

Section 515, Rural Rental Housing Programs, which is the multi-family program in Farmers Home;

Section 504, Home Repair Programs, which has both loans and grants, and housing preservation grants.

That is it in a nutshell.

We for example have obligated over $42 million this year in Section 502, and over $23 million in Section 515 so far.

Senator FOWLER. Let me ask you this, Mr. Harris. I am very interested in the underserved demonstration programs that we have started up.

Mr. HARRIS. Yes, sir.

Senator FOWLER. I understand there are five Georgia counties—here, Stewart, Webster, Hancock—where else?

Mr. HARRIS. Clay, Hancock, Marion, Stewart and Taliferro, and we have——

Senator FOWLER. Tell us exactly what that demonstration consists of, and what concrete progress can you report.

Mr. HARRIS. Well, these are underserved counties which are measured by the quantity of substandard housing, and also the number of households with income below 50 percent of the median income in a State.

We have already obligated almost half a million dollars of the roughly one million dollars that we have been allocated for those counties for single-family, multi-family and home repair loans.

I would point out, Senator, that one thing we have seen in this project is that there is probably a greater need for the multi-family than single-family, due to the fact that it looks as though single-family borrowers just simply cannot afford, or the applicants just simply cannot afford to do that.

So we have discussed this with the national office, I have talked to the assistant administrator about it, and I think in the future in these targeted counties we will see more multi-family housing money, because we could probably spend the whole million on that and still be able to do more.

Even with the deep subsidy, you know, it is just not feasible to target home ownership in those counties.

Senator FOWLER. How much of what you see as the need for the multi-family is for farm labor?

Mr. HARRIS. Very little. I would just have to say very little, Senator. I am not aware that we have had much demand for that at this point.

Senator FOWLER. How long have we had this program now, 1 year?

Mr. HARRIS. Less than a year.

Senator FOWLER. The underserved?

Mr. HARRIS. I think January is when we started this project.

Senator FOWLER. And—well, that is just 6 months. Have you got anything actually coming out of the ground?

Mr. HARRIS. Yes, sir.

Senator FOWLER. And how much of that is—give us sort of the breakdown between single-family and multi-family. How much of that is multi-family, and what counties are those in?

Go ahead and let—go ahead, Wayne, just go ahead and state it.

Mr. HOWELL. We have an—there is an elderly project right here in Richmond that is part of that. They have just broke ground.

Mr. ROGERS. 33-unit elderly right here.

Senator FOWLER. 33 units.

Mr. ROGERS. $880,000 loaned.

Mr. HARRIS. They just broke ground, so that is coming, and I do not have a feel for the other.

Mr. ROGERS. The other county, in Hancock County for example we have a rural rental there, and it is approximately a million and a half, and there is a possibly we will get at the end of this year or the first of fiscal year 1991, and that is a 49-unit elderly. It is a hotel we are rehabing and adding additional units right in downtown Sparta. By Christmas at the latest we are hoping to have obligation on those funds.

Mr. HOWELL. As to the single-family, we had enough money for about fourteen loans, and we now have on hand applications that will take up these funds.

Mr. HARRIS. By the end of the fiscal year.

Senator Sanford. Well, you have got according to your testimony a $15 million backlog in 502.

Mr. HOWELL. Yes, sir.

Senator SANFORD. Is that the same 14 million you are talking about that you are ready to process, or is that another backlog?

Mr. HOWELL. No, sir. There is only fourteen single-family housing applications on hand today in these targeted areas that is ready for funding, and that will take up the money that was appropriated which is approximately a half a million dollars for single-family housing.

Mr. HARRIS. Fourteen individual applications in those five counties.

Senator SANFORD. All right.

Senator FOWLER. Go ahead.

Senator SANFORD. Well, I am ready to move from those targeted areas.

Senator FOWLER. Let me just ask one other question that may or may not be on the targeting.

To what extent do you—well, I will just put it bluntly. Has there been, in working with the public housing authorities in these counties, conflict or cooperation?

Mr. HARRIS. I would have to be candid, Senator, and say that there has probably not been enough. We rely on our multi-family projects on the developer contracting or hiring a market study, and I have become aware recently that some of the housing authorities do feel that we have moved in some areas and that there has not been a good market study, so that is something we are looking at right now, and I am going to be communicating more with the housing authorities on those matters.

Senator FOWLER. How about—how do you describe the coordination and effectiveness between your agency and HUD in this targeting, in the housing development of the targeting?

Mr. HARRIS. Well, that has been a problem in past years, and as you may know I left HUD to come to Farmers Home and I was aware of that problem existing. However, the information I have now is that we are doing a better job, and I do not know of any recent complaints on that.

Our staff works closely with the regional housing staff in Atlanta, and I just—I do not see it as a current problem.

Senator FOWLER. Well, I am glad to hear that, and I am glad to hear the report on the obligated funds, but I will await the success of the ventures and wish you well. I know there is tremendous need in these counties and many, many more like it.

If you can show us how it can be done, and can be done effectively with the community support that is necessary of course, then we may have a program that as Senator Sanford said in his earlier remarks can truly go national in rural America if we can make this bring up the service level to certainly the most needy in our rural areas.

Senator SANFORD. How were these five counties picked for the demonstration?

Mr. HARRIS. Based on—I am not sure what—I guess they took census information in the national office and looked at the availability of housing, and also median income. There were counties nationwide.

Senator SANFORD. Was local interest a factor?

Mr. HARRIS. The availability of local financing?

Senator SANFORD. Interest of local leaders.

Mr. HARRIS. Oh. I do not know, Senator, to be honest.

Senator SANFORD. I was interested. It looked to me like you did fairly well in two, very well in one of them, and lagging pretty much in the other three, very little—I do not know how old this information is, but 502 in only Stewart, 504 only in Hancock and Stewart. 504 grants you indicated were not in Taliferro, but I cannot—and then Hancock and Marion, Stewart has the 33-unit for the elderly.

Mr. HARRIS. And Hancock will have the converted hotel that Mr. Howell mentioned, the 49 units.

Senator SANFORD. In the 504?

Mr. HARRIS. That is 515.

Again, I think the level of activity as far as the loans are concerned, both 502 and 504, reflects that on one hand there is not just repayment ability, and on the other hand a number of the potential borrowers are elderly, and as far as the repair loans are concerned they just in most cases are not willing to take on another mortgage.

Senator SANFORD. In these five counties.

Mr. HARRIS. Yes, sir.

Senator SANFORD. Let us look statewide a minute.

Mr. HARRIS. Yes, sir.

Senator SANFORD. What is the size of the agency in the State? How many people?

Mr. HARRIS. Staff?

Senator SANFORD. Yes.

Mr. HARRIS. I currently have 332 as our ceiling. Now, Georgia as you may know is one of fourteen States which will begin a pilot

over the next few months to specialize more of our underwriting duties and so forth. We will be adding about 41 people on our staff in Georgia.

Senator SANFORD. Now, again looking at the material you furnished, in fiscal year 1989 you obligated over 100 percent of the funds under Section 502, which is good.

The 504 program you commented on in these five counties, but the 504 repair grant program, you did not obligate any of those funds.

Mr. HARRIS. Senator, as far as the repair grants are concerned, we did obligate all those and more. We did not obligate all the loans, and primarily for the reason I just indicated. That is our feeling is that in many cases these are elderly who are just reluctant to take on another loan is more the problem.

Senator SANFORD. But how many do you turn down where they apply, and what is the criteria for turning them down?

Mr. HARRIS. Senator, I do not have figure for you, but—all I can tell you is it is very small. The level of activity here is not indicative of applicants being turned down.

Senator SANFORD. I am not trying to find fault with the administration of the program——

Mr. HARRIS. That is all right. I understand.

Senator SANFORD [continuing]. I am trying to find if this program somehow is not working because of flaw in the program, or do we still have probably as many—in North Carolina and Georgia—as many people living in housing that is below standard, well below standard, as we do anywhere in the country, and the question is why we cannot get them up to standard. Is it total lack of financial personal income, or another problem?

Mr. HARRIS. Yes, sir, I would say that. You know, we probably could obligate much more on the grant side for home repairs, if I understand your question.

Senator SANFORD. Have you obligated all you have?

Mr. HARRIS. Yes, sir. Grants, we have.

Senator SANFORD. Now, what about the set-aside for the very low income people. That has not worked very well?

Mr. HARRIS. For——

Senator SANFORD. 502, very low income.

Mr. HARRIS. We have used all that this year. Not last year, so there has been an improvement this year.

Senator SANFORD. You have used all of the set-aside?

Mr. HARRIS. Yes, sir.

Senator SANFORD. Now, there is a problem that applies to S&Ls, and it applies to FHA and Veterans Administration, and certainly to Farmers Home. What are the problems that have developed in foreclosure?

I take it that you have pretty well disposed of the single dwelling repossessed properties.

Mr. HARRIS. Well, we do have an inventory.

Senator SANFORD. How big?

Mr. HARRIS. 332, that is single-family inventory right now.

Senator SANFORD. And what do you plan to do with it?

Mr. HARRIS. Well, we are still trying to sell some of them, and they are also available as you know in some of the homeless programs.

We frankly have not had much inquiry on that. Right now we are just trying to sell them.

Senator FOWLER. How do you get the message out that they are available?

Mr. HARRIS. For sales?

Senator FOWLER. Yes.

Mr. HARRIS. Through advertising. We work through local brokers to market them as well.

Senator FOWLER. I cannot imagine that you do not have a lineup for them. Why do you think that you do not?

Mr. HARRIS. I do not know. I cannot explain that. In some cases it is probably the condition of the houses.

Senator SANFORD. You can transfer those houses to a private landlord who can then rent them?

Mr. HARRIS. The location of the houses, you know, in most cases will not—they are not very marketable. Otherwise, they would not be in inventory.

Senator SANFORD. Well, they are not very marketable at your price, no doubt.

Mr. HARRIS. Yes, sir.

Senator SANFORD. The thing that has bothered me in all of these programs is the fact that we have the foreclosures.

Now, you have a continuing direct line with your borrowers, you do not broker that off somewhere, so when the default comes it directly comes to you. What do you call a default?

Mr. HARRIS. What do we call a default?

Senator SANFORD. Yes; what do you have to do to be in default, miss an interest payment?

Mr. HARRIS. Oh. No, sir. Senator, we do not consider them in default until they are at least three payments behind, and as you indicated we do have a direct link to our county offices, and in many cases we are able to work with them.

Senator SANFORD. Well, what can you do, or what does the law permit you to do to refinance and restructure a loan when a person for whatever reason is falling behind?

Mr. HARRIS. We have a moratorium—and I am going to let Wayne Howell explain how that works, because I do not know technically how it works—which will enable us to help work through that.

Senator SANFORD. Well, you have got several hundred houses that you cannot dispose of, and presumably the people that moved out of those houses need housing, and presumably they are living in something less standard, or maybe paying some rent, and the question is can we design an approach that helps those people not give you those houses back, and not have a hard-handed approach that if they are three months—I know it is not quite this cold-blooded—but if it is a few months behind then we foreclose and take it and set their furniture out in the street, so to speak.

Mr. HARRIS. Well, we would welcome such a program, Senator.

Senator SANFORD. I know, but have you got some ideas about how that might be done?

Mr. HARRIS. Well, I guess we could relate that to what we have done in the farm programs. We do not have such a structure in place now which would allow us to go in and negotiate with those home borrowers and restructure or whatever. That may save some of them if we had such a system.

Senator SANFORD. Well, if you did a case study on these several hundred and you could then identify what the situation was, could they have maybe with some forbearance held it together.

Now, if you owed a bank $80,000,000 and could not pay them, they would work that out for you. They worked this out with Trump. [Laughter and applause.]

Mr. HARRIS. Senator, we do have available certain servicing tools as you may know, and I mentioned the moratorium, so I do not want you or Senator Fowler to get the impression that when somebody is 3 months behind we take action and——

Senator SANFORD. Oh, I know that, and I——

Mr. HARRIS [continuing]. We do work with the borrowers and——

Senator SANFORD. But I think it is also true that you do not have enough tools, or our policy for whatever reason that somewhere somebody higher up says at this time you have got to take the property back.

It is just not a good economic decision to take that property back if there is any way to avoid taking it back.

Mr. HARRIS. Yes, sir, I would agree with that.

Senator SANFORD. It costs you more money to have it vacant I believe, than to have somebody living in it in default.

Mr. HARRIS. Yes, sir.

I would point out to you, though, that our delinquency rate is way down this year.

Senator SANFORD. Well, you have got all of them out of there. [Laughter.]

Mr. HARRIS. Very few of the houses that we have in inventory have been in inventory a long time. The number there I think is indicative of the high delinquency rate we had up until the last few months, and we have seen a vast improvement. I think we have pretty much cut that in half this year.

Senator FOWLER. How? What did you do to cut it in half this year?

Mr. HARRIS. I think it was just the nature of the economy and, you know, we had certain places where the local and regional economies were really suffering 2 or 3 years ago. You know, I can use Albany as an example where we had high delinquency.

So as those local economies have improved and the job situations have improved, delinquencies have come down.

Senator SANFORD. Well, would you be willing to have some of your people, or people concerned with this program put together some thoughts of how we might keep people in those houses and how that might be good business as well as good public policy, and where those two come together I think FHA and Veterans Administration take houses back too quickly because the system puts that to the advantage of the lender or the syndicator to take them back.

We do not have that situation here, and maybe if we could find a wedge with Farmers Home on how to do it, we could then apply it

to some of these other programs. It is extremely costly to take all that property back in.

Do you think you might do us a paper on that?

Mr. HARRIS. I would be delighted to help, Senator.

Senator SANFORD. I think it would be very, very helpful to have some creative thinking on this.

Let me ask you now about the nonprofits. According to your testimony, only one nonprofit in the past 10 years has applied, and you have to go back 15 years to find where a grant was made to a nonprofit. That is not typical of other States.

Mr. HARRIS. Let me draw a distinction, Senator, if I may between public bodies and other nonprofits.

Senator SANFORD. I understand.

Mr. HARRIS. We have had some nonprofit activity with the——

Senator SANFORD. With the public bodies.

Mr. HARRIS. Yes, sir.

Senator SANFORD. But not much.

Mr. HARRIS. No, sir.

Senator SANFORD. And none with the nonprofits, the church groups or——

Mr. HARRIS. Right.

Senator SANFORD [continuing]. Civic groups or organizations desiring to provide housing for very low income people. Why do you suppose we have not?

Mr. HARRIS. Well, probably a combination of factors. You know, obviously we are using all the 515 money and then some available, and there probably has not been much incentive for us as an agency—and I cannot speak for the past, but I am assuming that there probably was not a lot of outreach to those groups, because the 515 money just was not available.

Senator SANFORD. Well, I would assume that there is very little outreach to those groups, because there are not any groups to speak of, and if they have not been applying and coming in there has not been any outreach obviously.

Mr. HARRIS. Yes, sir, but there is potential for outreach, though, with regard to housing authority groups and city councils and others.

Senator SANFORD. I would think this might be one of the most economical ways to take care of very low income people for their housing, and again I would hope we could come up with some creative ways to involve them.

We have put some provisions in the legislation that is now pending providing money that you can provide for technical assistance to help them design their applications, help them understand how they can put it together in a sound way that will not bring on failure.

So that is another thing I would hope you would give some additional thought to and maybe give us your thoughts on how do we involve them. We have got the programs, we have got the set-asides, we have got the technical assistance coming, but we do not have the involvement.

I think a couple of other people might testify on that today.

Senator FOWLER. Let me just follow that up specifically, Mr. Harris.

We have heard in hearings around the country and in Washington it seems that the nonprofits have been for whatever reasons we do not need to go into—at least will not look back right now—have been discouraged from participating in Farmers Home housing programs, and the usual line has been that the nonprofits do not have a track record.

It seems to me the question is for all those how do they get a track record.

Mr. HARRIS. Senator, I honestly do not think that has been a problem in Georgia, and I am going to———

Senator FOWLER. Well, we will hear from Hank here in a minute, and he will probably———

Mr. HARRIS. What I am saying is I do not think it has been a problem of us discouraging nonprofits. I would welcome nonprofit development. We are anxious for nonprofit development.

We have not had the interest. Maybe that is our fault, and if it is, maybe we need to do a better job of working together and educating them on the program, and I am perfectly willing to do that.

I am not aware of any discouragement, at least in my short tenure here of nonprofits.

Senator SANFORD. Well, if you do not mind, let that be Memorandum Number 2.

Mr. HARRIS. All right, sir.

Senator SANFORD. I think that would be very helpful to us.

Mr. HARRIS. All right, sir.

Senator SANFORD. Let me ask one more question, Mr. Chairman.

Senator FOWLER. Please.

Senator SANFORD. The administration has recommended, as you know, that the 502 program be converted to a guarantee program instead of a grant program—or direct loan program, not a grant. What do you think about that?

Mr. HARRIS. Well, I think, Senator, that what—they are talking about not converting the whole program, but a multitiered approach, and I am very much in favor of that personally.

I think if you look at our success in Georgia with our guaranteed farm loans, there is obviously interest in the private sector and the financial community to work together with us. We have already gotten indications from some Georgia bankers and the Farm Credit folks and others.

I feel that it could be very successful in Georgia, it would allow us to leverage maybe part of our money and house more Georgians, and I hope Georgia is one of the States that it is piloted in. I understand there are going to be a few States that it is piloted in, and we would be anxious to see it come to Georgia.

Senator SANFORD. Well, now, that is going to require another paragraph in Memorandum Number 1, because if the banker has got that loan they are not going to have the incentives, or at least the facilities or the capacity to deal with foreclosures quite as easily as you might, so you might consider that when you are doing Memorandum Number 1.

Thank you, Mr. Chairman.

Senator FOWLER. I have got a lot of questions I would like to ask, but I think it might be helpful at this stage to bring in our other

two participants, because they can both help us react to the director's observations.

We are pleased to welcome Mr. Moises Loza of the Housing Assistance Council. Welcome, Mr. Loza.

STATEMENT OF MOISES LOZA, EXECUTIVE DIRECTOR, HOUSING ASSISTANCE COUNCIL, INC.

Mr. LOZA. Thank you, Senator.

It is an honor to be here. It is particularly a privilege to speak before Senator Sanford and you, Senator Fowler.

Those of us who work in the area of rural housing kind of look to you for leadership, and you have done an excellent job, and we are very, very pleased and very, very grateful and look forward to the continuation of that support and that leadership for many years to come.

Let me tell you briefly about the Housing Assistance Council. We have been in existence since 1971. In those almost 20 years that we have been around, through the use of a loan fund, through the use of technical assistance, and through the use of training programs around the country we like to take credit for about 20,000 units that have either been built or rehabilitated across the country.

Much of the work that we do is with local governments, local nonprofit corporations and local public agencies, and at some point in my oral remarks I would like to briefly address the nonprofit issue before I am finished here.

What I would like to do today—the testimony I hope will be on the record as you have stated, so that what I will do is highlight some of the ideas that we have about addressing some of this very, very serious rural housing problem.

First of all what I would like to talk about is an idea of ours, the capacity building. Mr. Harris has described some of the problems, some of the situation in getting the local nonprofits in localities to participate more in the program.

We have found that across the country in fact the rural, more isolated, poorer areas are the ones that tend to have less resources to do the kind of work that needs to be done in those areas, and we could allocate and appropriate all kinds of money for housing programs in poor rural areas, but there needs to be some entity or some organization locally that goes after those funds to bring those funds into those communities, and that is what we refer to as the lack of capacity in rural areas.

The churches, local governments, public agencies all are very, very interested, and all are very, very concerned about the substandard housing situation in their communities, but because many of them have very low tax bases and very few resources—and I always refer to a small town that I did some work in a couple of years ago where the mayor served I think as—in his duties as mayor I think he got $30 a month for his work, and he had four city councilmen each of whom I think got $20 a month for their work. The whole of the city staff was a half-time retired woman who collected taxes and the utility bills, and so on and so forth.

Well, with that kind of resource in a small town, which by the way had about an 80 percent substandard housing rate, it is really

impossible to initiate any kind of program, so that even if Farmers Home and HUD and other State programs had all sorts of resources, somebody needs to be there locally that attracts those resources, that assesses the housing needs locally, and that then uses those resources and those programs to develop the housing that is necessary there, and what we think is that until we provide the capacity in rural areas much of what needs to be done, particularly in the more remote, poorer areas is not going to get done.

The other program I would like to briefly highlight is a program of relief for homeowners. Home ownership is more commonplace in rural areas than it is in the urban areas. The percentage of home ownership nationally is about 63½ percent. In the nonmetropolitan areas that percentage is 75.9 percent.

We think that a program that could provide assistance to rural homeowners whose shelter costs exceed 40 percent of the household income would be a welcome relief. We believe that the homeowner assistance would cost less than what the rental assistance program does now.

The majority of these homeowners happen to be elderly, and according to the American housing survey the estimates are that 38 percent of them have no mortgage at all, so that the high costs that they encounter have to do with taxes, utilities and maintenance of the home, and while to our knowledge no one has objectively documented the real need, there is anecdotal material that indicates that keeping the elderly in their own homes probably would reduce the overall costs, and in many cases probably would be more desirable for many of those elderly people as opposed to publicly paid custodial home type of situation.

Senator FOWLER. Let me just interrupt you there for your evaluation of the 504 home repair program, which we certainly hope we get a lot of housing for very little money, and as the Farmers Home just said, they got a lot of applications for.

It seems to me, if it could be done right, it could be especially effective with rural elderly people who, as you have described have paid their mortgage but do not have any money and have a lot of home repair needs. What is your evaluation today of that program?

Mr. LOZA. Well, the 504 grant program has never been at a loss for applications, and in fact the 504——

Senator SANFORD. Never has been what?

Mr. LOZA. For lack of applications. The money is consistently being used, and has been used over the years.

The 504 grant program of course is only for the elderly, and the purpose of the program is to remove hazards in the home—leaky roofs or anything that presents a danger or any kind of hazard to the household.

The grants in fact do not require any sort of repayment from the elderly, so it is a very popular program.

The other 504 program, the loan program, however, has not enjoyed the extensive use that the grant has, and I think Mr. Harris is correct in the sense that many elderly who probably could use those loans are not interested in entering into any kind of debt situation in their later years, and rural people do tend to have a more conservative attitude about debts than urban people seem to do.

The 504 loan program——

Senator FOWLER. They have also got better sense than those of us in Washington. [Laughter.]

Mr. LOZA. The loan program of course is also available to families, and there are probably a variety of reasons why that program does not get used. I think part of it has to do with capacity again, Senator.

We met with a mayor in Utah who became very, very interested in the 504 program, saw it as a real opportunity for her community, and she took it upon herself to actually be a packager, she actually went to her constituency in her own town and actually helped them fill out their applications, and in her community the 504 loan and grant program increased about sevenfold in about an 8-month period.

But there is one case where an individual has provided the capacity necessary to initiate the applications for that particular program.

Senator FOWLER. Well, I interrupted you in your second idea on relief for home ownership. Specifically what are your ideas? What kind of relief are you talking about?

Mr. LOZA. Well, what we think, Senator, is that if you look at homeowners, particularly low income homeowners who have to pay more than 40 percent of their income for their shelter, we think that a program that would subsidize their housing costs to reduce those costs to 40 percent would allow them to have money left over for the other needs that they have, and because many of these families are not ready or willing to move, and because we think it is probably cheaper to keep those families in their homes and help subsidize their housing costs, because many of them do not have mortgages, it is really just the maintenance costs——

Senator FOWLER. Have you looked into how you would do that? If they are suspicious of loans for the reasons that both you and Mr. Harris said, then that leaves us I guess with only two alternatives. We can either do it through grants——

Mr. LOZA. Yes, sir, that is what we would suggest.

Senator FOWLER [continuing]. Or through something along—I suppose you could design a refundable tax credit, do it through the tax code. Have you looked into that?

Mr. LOZA. We have not looked at it that specifically. What we envisioned was a grant program to subsidize those costs.

The tax code of course is always an option. The reverse mortgage program that AARP and other groups have tried, it is still a little early to tell how that is going to work, but that would be another approach.

What we envision is a subsidy in some form of grant, whether it is through the tax code or some reverse mortgage program that would lower those costs, and again we think that would be cheaper than to build rental housing, move into rental housing or some custodial care situation.

We need to think through more carefully about some specific costs and some specific options about how to make that work, though.

Senator FOWLER. Thank you. If you want to conclude here, then we will go to Mr. Huckaby.

Mr. LOZA. The last thing I want to talk about is you made reference to the nonprofit situation which of course is an interest in this hearing.

The Housing Assistance Council does not limit its activity, particularly its loan fund activity to nonprofits, but by and large most of the loans that we do make are to nonprofits and to public agencies.

Our experience has been by and large very, very successful with nonprofit corporations. We have been able to loan approximately $30 million of our loan fund. As I said before, we think we have been largely responsible for the development of about 20,000 units across the country, in many cases using Farmers Home programs, in some cases State agency programs and/or HUD programs. The losses in our loan fund over the almost 20 years we have been in operation has been less than 2 percent.

While we do work with for-profit developers in many situations, their numbers tend to be smaller than the nonprofits and public agencies.

Our experience has been that nonprofits have a real concern about developing housing locally. They have a long-term interest in developing the housing locally, and in many cases it takes them months or even years to go through the process, which defeats many of them because they do not have the resources to option or to own land for those long periods of time, but the success we have had I think shows that with some support and some perseverance—nonprofits are not going to solve the housing problem in this country, private industry plays a very, very important role, but in those situations where the private industry just cannot make the kind of profit that it needs to make to survive, the nonprofits can have a role, and in fact our experience has been that they can have a very successful role.

I will conclude there, Senator.

[The prepared statement of Mr. Loza follows:]

Thank you Mr. Chairman. My name is Moises Loza and I am the Executive Director of the Housing Assistance Council, Inc (HAC), a national nonprofit housing, educational and technical assistance agency working in rural America.

Let me also say that I'm very pleased to see Senator Sanford here. It is his active participation in the Banking Committee which gives rural Americans a real voice in the housing policy decisions of the Congress. His Rural Housing Revitalization Act (S.1371) led the way on rural housing matters. I'm pleased to say that most of it is incorporated in the Senate's final bill. It raised authorizations for rural housing programs, addressed the problems of rural, remote and underserved areas, made it easier for Native Americans to borrow from the Farmers Home Administration, and initiated a deferred payment program for FmHA home borrowers. The Senate has not had such an effective spokesman for rural housing since the late John Sparkman of Alabama.

For nearly twenty years now HAC has been working with housing groups in the most neglected areas of our nation—rural and small town America. Through the use of our revolving loan funds, direct technical assistance and hundreds of nuts and bolts training sessions in virtually every state, we have materially assisted in the production of over 20,000 units of new and rehabilitated housing in rural areas of this nation. The huge majority of them have been built by local, community based, nonprofit developers and rural public housing agencies. We believe this long-term experience with rural housing programs and providers gives HAC a unique perspective on both housing need, and the programs necessary to successfully meet that need.

My remarks today will be directed toward improving those existing rural housing programs which have worked for more than twenty years. I also have some sugges-

tions for new initiatives, which if adopted, would address the housing needs of those rural residents who so desperately need help but do not now receive it. We do not underestimate the difficulties—political, economic and social—that must be overcome if we are to provide decent safe affordable housing for all rural residents. We do believe those problems will be solved when we collectively gather the political will and resolution to address them honestly.

It is particularly appropriate that this hearing is under the aegis of the Senate Budget Committee. One of the principal responsibilities of that Committee is to establish priorities. This is not an easy task in even the best of times, but without the Committee's assessment of this nation's basic *needs*, as distinct from a wide variety of competing *claims*, the Congress and Administration will continue to respond to the squeaky wheel and ignore the lame horse pulling the wagon.

We believe it is obvious to any observer that present rural housing efforts are woefully inadequate. Disproportionate numbers of the residents of nonmetropolitan America are, by virtually any measure, in very real distress.

It surprises no one that the poverty rate in the Bronx, N.Y. is 27.6 percent. But how many people know that the poverty rate of more than 200 rural counties exceeds that? Tunica County, Mississippi, the nation's poorest county, has a poverty rate nearly twice that of the Bronx.

Household median income in metropolitan areas in 1988 was $29,346. In nometro areas it was $21,385, and for minorities even lower: nonmetro Hispanic households had median incomes of $15,978, and African Americans household median income was $12,003. Overall, nonmetro per capital earnings were but 66.2 percent of metro earnings.

Unemployment data, as reported by the Bureau of Labor Statistics for 1989, shows a consistently higher nonmetro than metro unemployment rate, and while it has dropped from a high of 10.1 percent in 1982, to 6.4 percent in 1989, it is still 28 percent above the metro figure of 5 percent. The nonmetro adjusted unemployment rate, which includes discouraged workers who have given up looking for work and half of those who work part-time but want to work full-time, was 9.1 percent for nonmetro areas and 7.5 for metro areas. In 1989, 15.3 percent of teenagers, 12 percent of African Americans and 9.3 percent of Hispanics in nonmetro areas were unemployed.

Among nonmetro residents 15.1 percent have not seen a physician in more than two years. For metro residents this rate is 13.5 percent. Yet nonmetro residents lose 20 more days of activity due to injuries per 100 persons each year than do metro residents (182 vs. 162). Children aged 5 to 17 lose nine more school days each year to infective and parasitic diseases in nonmetro than in metro areas.

69 percent of those over age 25 in metro areas have graduated from high school, while only 59 percent in nonmetro areas have done so. The gap is even greater with those who have completed 4 years of college—17.9 percent vs. 11.2 percent.

Housing quality problems are also more severe for rural than urban poor households. Though poor metro and nonmetro households are equally likely to be living in moderately substandard housing, the most severe deficiencies are a more frequent problem for the latter; they represent 31 percent of all poor households but 41 percent of those in severely substandard housing. They also occupy 49 percent of all units with inadequate water supply; and 79 percent of those with inadequate sewage disposal. A 1982 study by Cornell University revealed that two-thirds of all rural households use water judged unacceptable because of some contaminant—generally coliform bacteria.

In the 1980s affordability emerged as a new and steadily worsening problem for poor rural households, both owners and renters. This trend was clearly illustrated in *The Other Housing Crisis*, a recent publication by the Center on Budget and Policy Priorities and the Housing Assistance Council. Between 1978 and 1985, the proportion of income spent on housing by the typical nonmetro homeowner earning $5,000 or less rose from 37 to 48 percent; for renters, it rose from 58 to 67 percent. The 1987 American Housing Survey data indicate a continuation of this trend. We seem to be falling a little further behind each year.

The Congressional Research Service estimates that nonmetro areas have 7.2 million units that are inadequate, crowded or cost-burdened. CRS also says that there is an annual production shortfall in rural areas of 75,000 units.

Nonmetro areas have 22 percent of the total U.S. population but 27 percent of persons living below poverty. Poor nonmetro households are 29 percent of all poor households, but 32 percent of the poor households living in housing with moderate physical problems and 36 percent of poor families in units with severe physical shortcomings.

Despite this need only 29 percent of low-income renter households in nonmetro areas receive any housing assistance, whether federal, state or local.

Some Recommendations

HAC suggests three new programs and the expansion of several existing programs as the sensible, prudent course necessary to reverse the downward trend in the rural housing supply, affordability and quality. While they are not cost-free, we believe that the problem is discrete, with costs that can be quantified, and that those costs are not open-ended. Let me describe the programs, our calculations of the costs and the resulting benefits.

Capacity Building

The single most productive device for providing affordable rural housing would be the development of local community capacity to sort through the myriad programs, public and private, to locate the aid which will meet that community's housing need, and then effectively use it. HAC has long advocated the establishment of rural housing development organizations, charged with the responsibility of assuring that all of the low-income housing needed within a given jurisdiction was in fact provided.

These organizations should serve a discrete geographic rural area and be locally organized, chartered, and operated, with the initial administrative and training costs borne by the local, State, and Federal Government, proportionate to their relative resources. Such local organizations might be expected to be responsive to the diverse housing need in their specific area, with continued funding contingent upon meeting certain housing goals.

We believe funding should be provided to support local nonprofit housing development groups in all of the rural states of the nation. There are some existing organizations that might well serve as initial models. The state of New York has funded several Rural Preservation Companies which serve as non-profit rural housing development organizations. Many rural Public Housing Authorities might well expand their role beyond that of traditional public housing.

We visualize annual grants averaging $50,000 for up to five years for 300 such groups around the country. These grants would be for administrative, training, salary and support costs of a small core staff as they worked within their community or region (perhaps several counties) to develop the basic skills necessary to meet that community's housing need. Such funding would not pay for housing development itself, construction funds and long term financing, nor for the necessary predevelopment costs of engineering, environmental, legal, architectural or other fees. The local grantee would be required to forage for those funds as do all other developers. Their skill in so doing, without the pressure of administrative fundraising, would indicate their success and determine their continued funding. The annual cost would be $15 million—well less than the cost of operating the Selective Service System for one year.

The Administration, Congress, the housing community itself has, in the last few years, talked increasingly about partnerships in housing. And the idea behind those partnerships was, not only to bring in more actors with new ideas and more practical approaches to housing, but (to be blunt about it) to bring in more non-federal money. It has worked. But rural areas in particular pay a high price. The partnership approach has led to the creation of exceedingly complex financing schemes involving a dozen or more organizations, each with their own lawyers, accountants, bond counsel, housing specialists and other professionals and technicians. All this for 36 units of elderly housing. Not only have development costs skyrocketed, but small, rural nonprofits are essentially locked out of by their lack of sophistication in these matters.

The reason HAC works so persistently for increased FmHA funding is that FmHA is almost the only agency with programs that can deliver essential housing to rural areas. If the rural nonprofits were to develop the capacity to utilize the myriad other sources of financing available in urban areas, at the very least the growth in rural housing need might be slowed if not stopped. I am not saying that FmHA would need less money—indeed their appropriation should be increased—but the rate of increase might be slowed, and the non-federal money attracted to rural areas would dramatically enhance the effectiveness of the federal money available, resulting in more units with fewer federal dollars.

Relief For Homeowners

A little known fact is that homeownership is the normal housing tenure in rural areas. In many rural communities rental units have never been built, and the housing which is for rent tends to be converted older single family houses, units over downtown retail businesses, and single family houses of dubious quality. Programs which ignore the absence of rental housing, and fail to provide assistance to homeowners will not adequately serve the majority of low-income residents living in rural areas.

The 1985 American Housing Survey estimates that there are 32 million renters and 56 million homeowners in the nation. The percentage of homeownership nationally is 63.5 percent. In the nonmetropolitan areas with 18,930,000 households, the homeowning percentage is 75.9 percent. This is not only 12.4 percent higher than the national average, but 13.9 percent higher than the homeownership rate in metropolitan areas.

A new program should provide assistance to the rural low- and very-low-income homeowners who are dramatically burdened by shelter costs. Simply stated this program should make available a shelter payment to every low-income homeowner whose shelter costs—mortgage payment, taxes, insurance and utilities, (but not normal maintenance and repair)—exceeds 40 percent of the household income.

Again, according to data published in the American Housing Survey, there are 2,508,000 low- and very-low-income households living outside metropolitan areas in the United States, paying, 40 percent or more of income for gross housing expense. Homeowners comprise 61 percent of that group. Stated differently there are 1,530,000 low- and very-low-income homeowning households in non-metropolitan areas, that are paying more than 40 percent of household income for shelter costs.

Cost estimates for new programs are difficult, but based upon the annual contract price of Farmers Home Administration Rural Rental Assistance ($2,210), we believe that homeowner assistance would cost well under half as much as rental payments. A majority of these homeowners are elderly and the AHS estimates that 38 percent have no mortgage. Additionally, many states provide tax relief to elderly homeowners. A conservative estimate of providing meaningful assistance to those cost-burdened homeowners would be $1,375 billion annually. The program could be administered through the existing network of 2,000 FmHA county offices.

In one sense such a program would begin to put poor homeowners on the same footing as moderate and well-to-do homeowners who consume nearly $40 billion annually in federal tax expenditures for property tax and mortgage interest exemptions. Beneficiaries of this new program would be, by definition, below the income level which benefits from such tax expenditures.

While no one to my knowledge has yet objectively documented it, there is considerable anecdotal material indicating that keeping the elderly in their own homes, and out of institutions, reduces overall costs of care for the elderly by substantial amounts. Annual payments to an elderly homeowner would be less than the monthly cost of publicly paid care in a custodial home.

The Deferred Payment Program

Given the opportunity, very low-income households are fully capable of assuming the responsibility of long-term loans. *A Home of Our Own,* a study of the FmHA homeownership program published by HAC in 1988, found that among 894 FmHA borrower households tracked from 1981 to 1986, those with very-low incomes repaid their loans as conscientiously as did those with higher incomes. Most poverty-level borrowers were actually making payments ahead of schedule by the end of the period studied. The limitation on the rural homeownership program's usefulness, therefore, is the degree to which very low-income households are given the opportunity to participate. Because that opportuntity depends upon the hard cash payment requirements of the loan, it is this area which should be modified in order to expand the numbers of very low-income families who may qualify for an FmHA-financed house.

The housing bills which have now passed both Houses of Congress each have different versions of a program which would permit FmHA to make homeownership loans to families at much lower income levels than is now the case. We don't yet know what the final version will look like, but HAC believes the program should work in the following fashion:

(1) The borrower would receive full financing. (Current law)

(2) The mortgage would be amortized at 1 percent for 38 years. (Current law)

(3) The borrower would make mortgage payments only to the level of affordability (30 percent of income to pay principal, interest, taxes, insurance, utilities and main-

tenance) and if that payment was insufficient to meet all those obligations, up to 50 percent of the mortgage payment would be deferred. (Change from present law)

(4) That deferred portion of the payment would continue to draw interest but payment would only be required based upon affordability, or at the end of 38 years, or disposition of the property, whichever is appropriate.

(5) The deferred payment would be gradually converted to payment status, based upon affordability, and all of the deferral, along with interest credit payments would be subject to recapture at the property's disposition.

This provision would lower income affordability (income floor) by as much as 23 percent depending upon local costs of taxes, insurance, utilities and construction.

A further argument for the use of deferred payments is the potential effect in states where FmHA consistently fails to utilize its very low-income allocation. During the past four years, ten states have used an average of less than 40 percent of their very low-income funds. This would reduce the income affordability floor and increase the likelihood of successful very low-income loans in those states.

Finally, it is significantly cheaper to subsidize homeownership in this fashion than it is to provide rural rental assistance to the same eligible family. Some families of course will not wish to become homeowners, or simply have incomes too low even for the deferred payment program. For them, rental housing is the only alternative to homelessness. But if the Federal Government is to provide rental housing such as FmHA Section 515, we should understand that not only is the multifamily structure itself subsidized with 1 percent loans, in the homeownership program, but that some owners also receive rental assistance payments for about 70 percent of the tenants. As indicated earlier, those amount to about $2210 per unit, and with inflation go up each year. That is not so with a fixed-rate 502 home mortgage. HAC's calculations indicate that providing a four-person family with an adjusted gross income of $8,307 with a subsidized home loan, even with an initial deferred payment, costs the government $1,738 less than placing the same family in a Section 515 rental unit with rural rental assistance.

Additional cost of such a program would be, for each $50,000 loan made with a 50 percent deferred repayment, $321 for each year of the deferment, assuming eventual repayment. While there is no definitive study, there is considerable anecdotal evidence from FmHA's staff that interest credit program borrowers income rises to the point of full repayment at the note (market) rate in about 10 years. We do know that between ten and fifteen percent of interest credit borrowers go off interest credit each year. Some of those are the result of sales or foreclosures, but a 10 year period for receiving subsidy seems a conservative estimate.

HAC believes that the deferred payments would be discontinued in not more than five years, on average, and that total cost for each deferral would be less than $1,750. If every 502 loan made in 1990 had a 50% deferral, it would add just under $45 million to the cost of the program.

HAC believes that this deferred payment program will make homeownership possible for rural families at poverty-level income. We support its adoption and urge that it be made available in all states.

Expansion of Multifamily Housing Programs

As I have indicated earlier, homeownership is not for everyone. And for those other families there must be affordable, decent rental properties available. However, rural renters face a double problem: not only are rental units scarce in many areas, but there are even fewer standard units. While vouchers and certificates are valuable when suitable units are available, they do not help where assistance is most needed—communities that are rural and distant from urban areas. In such places meaningful assistance must be additional construction of rental housing.

Two Farmers Home Administration programs already exist to address the dearth of standard rural rental units: the Section 515 multifamily subsidized lending program, funded in FY 1990 at $572 million, and the Section 533 Preservation program for rental units, which FmHA has never operated. The FmHA Section 515 multifamily program works well in providing such housing, but the rate of production is far too low. From a high of 39,000 units in 1979, production has declined steadily through the 1980s to a level of under 16,000 in 1989. If the appropriation were increased by $725 million the production would increase to the 1979 level. A corresponding increase in section 521 Rental Assistance funding would be necessary to ensure that the expanded 515 program serves those most in need. HAC estimates this would cost approximately $195 million.

The reason advanced by FmHA for their failure to operate the Section 533 rural rental preservation program is that there are not sufficient funds. The appropria-

tion of $19.1 million is too small to be split into both homeownership and rental preservation grants, and then allocated equitably to all the states. While that may or not be true, clearly the appropriation should be increased. An increase of $30 million would surely eliminate the current FmHA excuse for not operating the program, and would provide for the rehabilitation of about 5,000 rental units annually.

The People Left Behind

Earlier in my statement I recited a litany of rural ills ranging from unemployment and poverty through medical need to substandard housing. With scarcely any exaggeration, you might double those figures when describing the poverty, housing, educational and medical need of rural citizens who live on reservations, and those who harvest our table crops—Native Americans and migrant farmworkers. While the housing plight of each of these groups is similar—abysmal—the programs needed to address them are different.

Migrant Farmworker Shelter

The most recent survey (in 1980) of the national need for migrant farmworker shelter indicated a shortage of nearly 800,000 units. More rigorous enforcement of health and sanitary standards since that time have meant the loss of even more private labor camp units, while the only federal farm labor housing program has financed, since 1980, fewer than 5,000 new units, virtually all of those in states with nearly year round need for farm labor. The existing farm labor housing program administered by the Farmers Home Administration in the U.S. Department of Agriculture, is wholly inadequate to the task.

Funded at roughly $22 million in FY 1990—half loans and half grants—the Section 514/516 farm labor housing program simply cannot meet the need. Furthermore, the nature of the program financing virtually necessitates year round occupancy of the units which are built, making it totally impractical in agricultural areas with a labor demand of only three or four months.

There is very real need for migrant shelter in those regions of the country with short growing or harvest seasons. The need there is every bit as great as the need for year around housing in home based states. Farmworkers, families with children as well as single workers, literally have no shelter in many places. They sleep in cars, in culverts, in the fields they harvest, in abandoned animal sheds, in tents, and when they can aford it, in cheap motels where they can at least clean up every week or so.

Two things are needed: a six fold expansion of the present 514/516 farm labor housing program which would finance about 2,500 year round units annually; and, a new program which would finance shelters, at about half the cost of year round units, in states where the need for migrant labor is for periods of up to six months. Such shelters would be required to meet the health and sanitary standards established by the Farmers Home Administration in 7 CFR 1924(a) (Exhibit I). A program to finance 10,000 migrant shelter units annually would cost about $250 million.

To make a very modest beginning toward meeting the housing needs of a significant group of employees critical to our agricultural production, the Congress should expand our present farm labor housing program by $100 million annually, and establish the new in-stream shelter program at $250 million.

Native American Housing

The Interior Department's Bureau of Indian Affairs and the Department of Housing and Urban Development are the two principal agencies financing housing on reservations. FmHA has the authority to make loans on Indian land, but less that one-half of one percent of its money goes to reservations.

According to the most recent BIA Consolidated Indian Housing Inventory, 92,970 Indian families living on reservations or trust lands need new or rehabilitated housing, up from 63,000 in 1960. A Congressional Research Service study released earlier this year documented a 13-year decline in HUD's budget for Indian Housing. That is not surprising, since this year for the eleventh time in twelve years HUD attempted to kill the new construction program. The Congress has each year retained the program, but funding for FY 1990 will build 1756 units. At that rate it will take 53 years just to house the families now in need.

The Housing Improvement Program funded through BIA at $25 million in FY 1990, is essentially a rehabilitation and repair grant program, operated by the tribes. One is tempted to say that it is grossly underfunded, and indeed it is, but the principal problem with the HIP program is the lack of suitable structures on reser-

vations which can in fact be rehabilitated at reasonable cost. The housing stock is so meager and so dilapidated that in all too many cases the rehabilitation is essentially the construction of a new house, sometimes at a cost higher than new construction. HAC believes the program should be redirected more toward new construction, with a subsidized loan to supplement the current grant, while of course retaining the rehabilitation option where appropriate.

A fourfold increase in the funding for both these programs would reverse the long decline in affordable, decent housing stock in Indian country. The HIP program should be funded at a minimum $100 million level, and the HUD Indian Public Housing program at the level necessary for 7,000 units annually—about $300 million. Total increase over current levels for these two programs would be $300 million annually.

Improvements in the Infrastructure

It is no accident that those who build housing are called "developers." Before they can build that house or apartment complex they must first develop the site by providing a suitable physical setting for the structure, and for those who will later occupy it. That requires a great deal more than just leveling the ground. There must be water, sewage disposal, power and light, streets, sidewalks and storm drains at minimum. The more of these items which must be provided at the developers expense, the higher the cost of the housing, and in many cases becomes prohibitive. So it is in many rural areas which have no existing water or waste water system.

Public health and environmental protection agencies, along with most funding sources, public or private, will not fund or permit to be built living units that are unsafe for residents or harmful to the environment. These perfectly sensible restrictions inevitably dictate, at a minimum, a rural water system, and in many cases a very expensive wastewater disposal system as well. Even where community water systems exist, they do not always extend "across the tracks" into the poor sections of town, or into the Barrios and Colonias of the Southwest.

Unless and until there are significant increases in the funding levels for both the Farmers Home Administration Community Facilities Program and for the Environmental Protection Agency construction grants program, hundreds of localities in the nation will be unable to produce the housing they so desperately need. They are at present simply unable to provide the infrastructure necessary for development. And that does not contemplate the further hundreds of marginal systems now existing, which will collapse in the near future without substantial rehabilitation.

HUD's Rural Role

The name itself, Housing and *Urban Development*, predisposes one to think in urban housing terms, and indeed it appears at times that the HUD staff generally thinks that way. But there is no statutory or legal reason most HUD programs could not be fully utilized in rural areas. Some of the very best public housing units in the nation are operated by rural housing authorities. Community Development Block Grant funds sometimes find their way to rural areas, and the Section 202 elderly and handicapped program is widely used in nonmetro areas.

The difficulty in using HUD programs in rural areas, we believe, is the scale of development necessary, or at least believed necessary, to make the programs feasible. It does not make sense to build a 202 project with 24 units, when it requires the income from 68 units to break even on amortization and management costs. Yet very few rural towns need 68 or more units. Hence the 202 units tend to be built on the fringes of metro areas, are counted as nonmetro, and do not serve rural communities.

Much of the CDBG funding has gone into housing in recent years, but once again, very little of it into rural housing. Why? The non-entitlement share of CDBG money, distributed by the States, tends to be distributed on a competitive basis, which, as in other programs, requires considerable grantsmanship on the part of successful applicants. The areas which need the assistance the most tend to be the areas without those kinds of skills.

HUD's Public Housing Program could and should be expanded in rural areas. Over 600 rural counties have PHAs with units under contract, and virtually every one of them could double the number of units, provide excellent management, and the solve a major part of the affordable housing problem in their communities. Yet public housing has acquired such an odious reputation, from the failure of a few large city projects, that the Senate housing bill just passed has ended the new construction portion of the program.

WHY NONPROFITS FOR HOUSING DEVELOPMENT?

At the same time we began to hear increasing talk in the early 1980s about partnerships, we also began to hear more about nonprofits as one of the partners. There was a feeling on the part of many that nonprofits would be able to attract charitable and foundation money to housing, and they have. Some no doubt believed that without a required profit, housing would be cheaper. It is not. It gave others a warm, fuzzy feeling to contemplate doing something "good". Some, I think, saw that local community-based nonprofits were in the best position to know just what local housing needs were, and with help, would be able to develop, build and manage the kinds of housing necessary to meet that need. Most importantly, some realized that nonprofits had no motive to manipulate the tax system or to speculate with federal subsidies, in other to get the last possible dollar from a low-income project. They would hold and manage the properties for the benefit of the tenants rather than their bank accounts.

FmHA's experience with nonprofit developers of section 515 multifamily projects is instructive. About 7 percent of all 515 projects were developed and are owned by nonprofits (including public agencies). The deliquency rate on those projects is well under half the rate of for-profit developers and owners. HAC believes this is so both because the nonprofits know and understand their tenants, and because they intend to own that property for the long haul, and manage it accordingly.

I think that must be the reason Senator Sanford introduced an amendment to the Senate bill, which directs FmHA to set aside 7 percent of the Section 515 money for nonprofits in 1991, and directs that the amount rise to 10 percent in 1993.

Let me briefly tell you about HAC's experience with nonprofit housing groups and their use of HAC's loan funds. Our principal fund was capitalized by a federal grant of $3,000,000 more than 19 years ago. It has since grown to nearly $7 million, mainly through low interest loans from church and charitable groups. This fund is devoted mainly to predevelopment or "seed money" loans to help local housing sponsors obtain permanent financing and begin construction of their projects. During those 19 years we have made more than 523 loans to 433 borrowers in 48 states, the Virgin Islands and Puerto Rico. We have committed more than $30,000,000 to yield approximately 20,000 housing units.

Virtually all HAC's lending has been to rural nonprofit groups and losses have been small—under 2 percent. It is the nature of the business to have an occasional project which does not go forward, a housing site which proves to have unforeseen problems, or a borrower who goes out of business. But, on the whole, HAC finds that nonprofit and public housing groups respond in a positive and a businesslike manner when they borrow from our loan funds. They exist for the purpose of providing needed housing for their communities and that motivation, with a little financial and technical support, provides us with responsible borrowers.

Though HAC's accomplishments with its loan funds have been significant in rural America, I would like to give a few specific examples of our work in Georgia:

Burke County Housing Improvements, Inc.
(Waynesboro)
Developed 10 units of HUD Section 202 Elderly Housing. HAC provided extensive technical assistance.

City of Greenville
(Greenville)
Rehabilitated 90 units of single and multi-family housing.
HAC provided loan funds to the city as bridge financing until the CDBG funds were received; and provided extensive technical assistance in preparation of the 2 grant applications which enabled the City to receive $1 million in CDBG funding.

The HAC Southeast Regional Office has served as consultant on several HUD Section 202 Elderly Housing projects. HAC's services on these projects begin in the conceptual stages and go through to occupancy. Some of those projects are:

Community Improvement Coalition of Monroe County
Elderly Manor
(Forsyth)—25 units (fully occupied)
Concerted Services, Inc.
Elderwood Homes
(Baxley)—30 units (fully occupied)
Heart of Georgia Community Action Council, Inc.
Heart Homes
(Hawkinsville)—30 units (firm commitment issued)
Middle Georgia Community Action Agency, Inc.
CMI Group Homes

(Warner Robins)—3 units with double occupancy (funding reservation)

In addition, HAC's Southeast Regional office has provided statewide training workshops to housing developers and CAP agencies on housing programs.

It would be misleading to suggest that our underwriting practices were the sole reason for our record. Our loan committee is of course careful and prudent. But they look at elements beyond the pro forma and the balance sheet. (Some of our borrowers don't always understand those terms initially.) They examine the housing need in the community, and the solution the applicant proposes to meet that need. Nonprofit applicants, just to reach that point, have often spent months and sometimes years in the process. It is a very persuasive indication of that local organization's cohesiveness, aggressiveness, responsibility and sense of community. A loan to such a group, even when the security may be dubious, is likely to result in housing, and repayment of the HAC loan. Such has been our experience.

THE COSTS

The suggestions HAC has made are modest in scope—a shelter cost program for low-income homeowners which we estimate would cost about $1.375 billion annually; a capacity building program for rural areas which should cost no more than $15 million annually; the pending deferred payment program for homeownership costing an estimated $45 million annually; and, an in-stream migrant shelter program which should cost no more than $250 million. All of the new programs we suggest would cost approximately $1.675 billion annually.

The greatest costs would be in the increase of appropriations for existing Federal programs, yet we suggest that even those costs woud be modest as measured against either the federal budget or the gross national product. FmHA's housing appropriation in FY 1989 was $2.185 billion and resulted in decent, safe, sanitary affordable housing for 52,536 rural households. The comparable figures for FY 1979 were $4.286 billion for 146,619 assisted households. To assist that same number of households in FY 1991 would require an FmHA housing appropriation of about $5 billion. That, in addition to the new programs mentioned above, plus an increase in water and sewer appropriations increases totaling $1.625 billion, would require a total appropriation of $8 billion.

In constant dollars that would be an increase over the FY 1979 appropriation of about 17 percent and would amount to .0017 percent of our $4.8 trillion 1989 GNP. It is .007 percent of the $1.140 trillion estimated federal income for FY 1991.

HAC does not suggest that in the present budgetary and political climate that even such a modest increase is likely in FY 1991. Yet it is certainly not too soon to begin planning for 1992 and beyond.

It might also be pointed out that the nature of housing and infrastructure development is such that outlays run significantly behind budget authority. Budget authority of $8 billion might well have little more immediate impact than current outlays. It is also true that the two major FmHA housing programs (Section 502 homewonership and Sec. 515 multifamily) are loan programs with excellent repayment records over the past twenty years. In some years the FmHA has realized a net "profit" on its lending.

Again Mr. Chairman, I want to thank you for inviting HAC to appear here before you this morning, and in particular to thank both you and Senator Sanford for your interest and the leadership roles you have played in rural housing.

Senator SANFORD. Well, let me just ask one question before we move on, and then I want to come back with a few more questions.

Senator FOWLER. Please.

Senator SANFORD. I do not want to start a fight, you are too close there to Mr. Harris——

Mr. LOZA. We fight all the time, Senator, it is quite all right. [Laughter.]

Senator SANFORD. What are your problems with Farmers Home? What kind of trouble are they giving you?

Mr. HARRIS. In other States.

Mr. LOZA. That is another list I have over here. [Laughter.]

Actually, the Farmers Home bashing is somewhat in style for the nonprofit corporations, but let me say two very important things.

The Farmers Home Administration programs have been around for a number of years, and have enjoyed considerable support by the Congress, which I think is why we still have those programs.

The structure, the people who work at Farmers Home, the programs that Farmers Home has, the direct lending that Farmers Home has we think are all excellent programs, and I think we would support them as long as they continue to operate the way they have.

The things that we think need to change at Farmers Home are, for example, the staff is largely overworked. While the situations in local offices vary, by and large the Farmers Home Administration responsibilities have continued to increase, but the staffing levels to handle that added responsibility have not. And because their portfolio continues to grow it really makes it very difficult for them to truly give as much attention as we would like for them to give.

Now, if Farmers Home had additional resources, or if Farmers Home had its priorities different, because if you have limited resources and have a thousand things to do, you need to decide of those thousand things I am going to concentrate on 300 and the others are just going to have to either wait or be put on the back burner.

We think that if their additional resources were made available or their priorities could be changed that more outreach would be necessary.

The Farmers Home Administration—again this is a generalization and it is not fair to generalize—but tends to sit back and wait for applications to come in.

With some capacity building in rural areas, and with the help of Farmers Home if we could get out—for example, we find when we talk to local groups about the homeless opportunities, opportunities for the homeless with the foreclosed properties, many, many local offices do not know about the program, so, one, it is impossible for them to——

Senator FOWLER. Many Farmers Home field offices know about the program?

Mr. LOZA. Yes, that is correct, sir. That is correct.

And again because they have so many things to do it is impossible for them to keep up with everything.

If they do not have the demands from a particular program, they are going to concentrate on where their demands are.

We think we need to have more outreach, we think we need to have more cooperation. There have been times in the past when HUD and the Farmers Home Administration and State agencies, and in some cases it still happens in certain areas, there are agreements of understanding between the agencies where they work together—one agency will take its needs to a group of different funding resources, and then they all figure out "Well, we can fill that need if you will fill that need" and "We can address this particular problem if you will address that particular problem."

So the resources Farmers Home has we think need to be increased, the staff resources.

The priorities we think need to be realigned to do more outreach and more work with the local communities that need that kind of

assistance, and we think your underserved areas in fact pushes them in that direction, and we think that coordination with State, local and other Federal agencies would be an important move for them to make.

Senator FOWLER. Well, since Senator Sanford asked a sensitive question with the director sitting there, it does seem, and that was I think a fair evaluation especially under these circumstances——

Mr. LOZA. There are three of them there. [Laughter.]

Senator FOWLER. It does seem, though, that in my experience going back now 20 years back to my city experience that I mentioned earlier, that HUD has very little outreach outside of the cities.

Farmers Home has got these offices all over the place. You are out. And it just seems to me that I never have—I have suspected, though I do not know—the one thing you did not mention that besides the priorities and besides the workload that the Farmers Home in truth, though I am asking Mr. Harris here as well as your evaluation, does not have a lot of experience in housing, or to put it another way around, does not have a lot of individual expertise in housing.

Now, that may be overly critical, but be that as it may, it just seems to me that that may be the niche that nonprofits can help build as you described in this capacity building, to work with the local institutions, to work with local communities, and be an extra bridge or link or however we would describe it to provide that additional expertise that Farmers Home in certain areas may be lacking.

Now, I am sure one field office can vary, that they vary from place to place, but I do think I would like to give you some additional memos—Professor Sanford keeps assigning all this homework—I would like to have your—we would both like to have your further recommendations on the specificity of how you could coordinate, cooperate more with the Farmers Home and help them do the job that we give them as public stewards.

Mr. LOZA. Well, if I could make a comment, a quick comment, Senator—and I will be glad to follow up with more specifics in writing—as I think we have to keep prefacing all our remarks, the activity of the offices varies from place, but there is a good deal of experience where nonprofit and public agencies and even local governments work closely with the Farmers Home Administration and help, in fact relieve them of much of the workload they have by developing many applications for them.

Senator FOWLER. Right.

Mr. LOZA. In the State of New Mexico some years ago there was even a State appropriation where the State hired State employees to work in the offices of Farmers Home to do some outreach, and in fact help in the development of actual applications, so that it is very possible. The activity and the demands vary from State to State.

The other issue you touched upon has to do with the requirements for working at the Farmers Home Administration, and unless they have changed recently the requirements to work in a Farmers Home office I think require agriculture sorts of degrees and backgrounds.

There really is no reason why people with business administration or development background and experience could not work in those offices where the housing activity dominates the agricultural activity, and I think that certainly would help, because Farmers Home employees have to come in with agricultural backgrounds and learn the real estate and the development and the construction and the housing business, which is not easy to do.

Senator FOWLER. Well, again you have put it far more diplomatically and sensibly than I did.

But all I want to do, and I know Senator Sanford joins me, if we are going to have these programs to try to serve people who so often fall between cracks, do not have the money for the conventional loan, they do not quite meet the requirement of the government, we have got to find at the very bottom a way to do exactly what you did with that mayor in Utah actually going door to door in many cases, especially since these people in the rural areas are spread out, and many have very little education.

I mean it takes three lawyers to go to any governmental agency to get any application now, so I want to—we need to find a way if Farmers Home is so overworked that they cannot go out and knock on some doors and get the word out, then we have got to find another mechanism, the nonprofits in working with local councils, housing authorities, elected representatives of these communities to do it, and if we cannot do that then we are wasting the money.

Mr. Huckaby, thank you for your patience. Chairman of the Georgia Residential Finance Authority, I am sure you will have some insights here that will keep the ball rolling.

STATEMENT OF HENRY A. HUCKABY, EXECUTIVE DIRECTOR, GEORGIA RESIDENTIAL FINANCE AUTHORITY

Mr. HUCKABY. Thank you, Mr. Chairman.

On behalf of the Authority and State government in general, let me thank both of you Senators for being here this morning.

I am one of those State bureaucrats who unfortunately has to spend a lot of his time going to Washington to bug people like you, Mr. Fowler, about certain issues, and I know my counterpart in North Carolina does the same, so it is refreshing and encouraging to have you on my home turf so we can talk about some of these needs.

You have my written statement, and that will be for the record. I will attempt to readdress that.

Senator FOWLER. Thank you.

Mr. HUCKABY. But I think to reflect on a comment or statement that Senator Sanford mentioned earlier in regard to the role of State government, I think you are seeing a much more energized effort in State government throughout the country, not just here in Georgia, but also as you know my good friend Mr. Koucab in North Carolina that runs the same kind of agency I do—are becoming much more aggressive, much more innovative and creative in using resources, their own resources, leveraging Federal resources and local resources to deal with the housing issue.

I am very pleased this morning that two of my own board members are here. Mr. Carter Smyre is in the room somewhere I am

told—he is from Columbus, GA—Carter is over here to my right, and back behind me here is Dan Hammock from down the road Edison, Georgia. Both of these people are on the board and have a great deal of interest and commitment to the kinds of issues we are talking about here today.

In a general way let me just make these quick comments, and then if you will permit me I will really go ahead and respond to some of the issues you have already raised.

By any measure I guess when you look at the housing needs of this country, when you go back to the Depression there is no question that we have made incredible strides. We may be one of the most, if not the most well-housed country in the world, but what we have now are the most difficult problems, the most intractable ones.

If the private sector could have solved those problems, it would have already done it, so we have creamed the best problems, we have solved those.

So now what we are left with are the problems that are only going to be solved by the cooperative efforts of not only the Federal and State and local governments, but the private sector, they still have a role to play, but nonprofits in particular, and I think increasingly all of those sectors are committed to working cooperatively, but to do so one of the things that we need—and I am not trying to defend Farmers Home or Georgia Residential Finance Authority or anything else—we do need as we proceed in this direction to have more flexibility at times.

Quite frankly, sometimes some of the laws that are adopted in Congress or proposed by the administration, or the rules and regulations drafted by the Federal agencies do not permit the kind of flexibility we need.

Now, I know this is a difficult time politically in Washington to be talking about flexibility when we have had the kind of scandals in HUD and so forth, but we need to deal with those and move on.

If we are going to be able to be creative and bring together a multitude of resources as just mentioned, then we have got to be able to get across some regulatory or bureaucratic obstacles, so in a general sense I would ask you to be concerned about that.

A second matter in a general way is that of continuity. These problems as I said are very, very difficult. We cannot deal with them when programs are funded or committed on a year-to-year basis. You cannot do planning, you cannot put in place those people, those systems, those procedures to deal with a problem it is going to take years to deal with.

In my own case, and I know this sounds a little self-serving, two of the major programs that we work with are the Mortgage Revenue Bond Program, which again expires September 30th of this year. Every year for 10 years that I have been executive director of the Georgia Residential Finance Authority I have spent countless hours and time going to Washington to continue to ask for the continuation of this program, and we get 1-year extensions one at a time.

Low income housing tax credit, which is——

Senator FOWLER. Well, now wait a minute before you leave that. The savior of the program has been the Congress.

Mr. HUCKABY. I agree. The administration has tried to kill us every year.

Senator FOWLER. It has been the administration that has tried to kill it.

Mr. HUCKABY. But we need a longer—and it does not just mean this program, but there are other programs like this—we need longer commitments.

Senator FOWLER. As soon as we educate the administration, we will give you a 5-year authorization. [Laughter.]

Mr. HUCKABY. I have given up on them, I am staying with the Congress, Senator.

Senator SANFORD. If they get the line item veto, they would take it out if we put it in.

Senator FOWLER. That is right. Well, do not raise that right now. [Laughter.]

Go ahead.

Mr. HUCKABY. The same way with low income housing tax credit program, and there are others, so we need longer vistas there in terms of keeping these programs alive.

Now, in regard to some specific things—you may not appreciate me saying this, but in regard to some specific things you can go back to Congress in the next 2 months to deal with, Senate Bill 566 has at least one provision that I think is critical that it be addressed, and that has to do with the increased restrictions proposed by the administration on the FHA insurance program that in essence increases the up front costs of a family accessing an FHA mortgage.

That potentially could have a very devastating effect in rural Georgia or rural North Carolina or any other rural place where typically capital to finance housing is difficult to achieve.

Over the life of our agency we have made 15,000 home mortgages. 55 or 56 percent of those have been outside urban areas, so a preponderance of those have been FHA mortgages in rural Georgia.

We do not need—although I know we have to protect the solvency of that fund, we need to find a better way to do that, because we are going to be squeezing out some of the very people that have used this program most effectively, so I am hoping as you go back and as you go into conference with the House that this is something you will address.

I know in the House there will be an amendment called the Vento-Ridge Amendment. It is a better solution, it is a little better approach, it softens the impact of what the administration proposed.

So that is one issue I think needs to be looked at right away.

I know that you have included what is called the Housing Opportunity Program, which I think begins to make some good progress, Senators, in providing some of that flexibility I talked about earlier.

There is one program in there, though, that is included in the HOP program called the rental rehabilitation program. We have been extremely successful in small town Georgia, and even smaller town Georgia in recent years with what has been called the Rural Housing Demonstration component of that program.

If HOP fails to survive——

Senator FOWLER. This is rental, is it not?

Mr. HUCKABY. Yes, yes, rental.

If HOP fails to survive conference, I think it is important that you at least continue that program as a categorical program. The administration has not recommended the continuation of it as a categorical program.

In the last 4 or 5 years we have been able to rehab almost 1,300 units throughout Georgia. We have done that with $6 million in Federal money, and it has levered close to $9 million in private money.

So it seems to me those kinds of models are the kinds of things we need to be looking at preserving.

Very quickly and I will conclude. You have touched on the area of nonprofits, and certainly I think they hold the prospect of achieving tremendous success throughout the country.

Senator Sanford, Georgia has been one of those States over the years that historically has had a dearth of nonprofits, and in my agency we particularly had begun to focus on that 3 or 4 years ago and realized as we began to hear discussion by people like yourselves in the Congress and agency people that nonprofits were a vehicle that held great promise and would be looked to in the future.

We quite frankly felt that if we did not do something in Georgia, then we were not going to get any resources, we were going to be left in the dust, so a long story short, our agency has made a commitment using our own resources to establish a nonprofit program. In the last year and a half we have helped to birth seven new nonprofits, most of them in rural or nonmetro areas throughout the State, and we provide them grant money, we make a commitment of $50,000 over 3 years. As our money scales down, their money must scale up in terms of commitment of funds.

We have very specific requirements. In other words, our attitude is it takes more than good intentions and good feelings to produce housing, it is very complex, so we have very specific requirements on the kinds of board of directors, their participation, membership of boards of directors and those kinds of things, and it is working extremely successfully. You will hear from one of the nonprofits on the next panel that is a member of our program.

Quite frankly, it appears we are having greater success with the nonprofits that are primarily small town or rural based than we are having with some of our more urban nonprofits.

Senator FOWLER. Why?

Mr. HUCKABY. I think it is because they have been—one possible explanation is there is sort of pent up demand there, there has been a pent up energy enthusiasm just waiting to be tapped, waiting for someone to provide some direction.

As Senator Sanford mentioned a moment ago, this whole area of technical assistance, we are providing that. In fact, we are having to expand our staff shortly to provide even more technical assistance.

It does take a lot of hand-holding, because it takes time and expertise that these folks do not have. If you give them that, though, our experience is they will do the job, and the track record that we appear to will have achieved after just 2 years amazes me, quite

frankly. I did not think that they would be able to do some of the things that they are doing.

So that is an area that is being successful. Hopefully my board, and I am sure they will, will be approving enough money, additional funds next month so we will bring on four new groups who have heard about this program, who want to get organized and begin in their areas.

And when we have done that, we will have geographical coverage of almost two-thirds of this State, and, as you know, this is a large State, and these nonprofits are not just based in one community, they are multi-county nonprofits, and we think that model is working very well and holds a lot of prospect for success.

There are other things I could say, but I will stop at that point if you have any questions.

[The prepared statement of Mr. Huckaby follows:]

SENATE BUDGET COMMITTEE

FIELD HEARING TESTIMONY

PRESENTED BY

HENRY M. HUCKABY, EXECUTIVE DIRECTOR
GEORGIA RESIDENTIAL FINANCE AUTHORITY

JULY 28, 1990

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Senator Fowler, Senator Sanford, I am Hank Huckaby, Executive Director of the Georgia Residential Finance Authority. On behalf of our Board of Directors, I want to thank you for allowing me the opportunity to appear before you and present testimony on the housing needs of rural Georgians.

The Georgia Residential Finance Authority was created in 1974. Our mission as the state's leading housing instrumentality is to help Georgia achieve its goal for housing its citizens, a goal adopted by the General Assembly in 1970: A decent home and a suitable living environment for every family.

While our responsibility is for the entire state, GRFA feels a particular sensitivity to the housing needs of rural and small town Georgia and we keep these needs high on our agenda. In recent years, most of our program expansion has been targeted to rural communities. Our activities attempt to combine public funds, primarily Federal, with private sector resources to create affordable housing opportunities for low and moderate income Georgians. Our record demonstrates are being responsive and innovative in addressing the state's housing challenges.

Although there are some similarities between the housing problems facing our rural metropolitan areas, we believe there are three critical differences which constitute the core of Georgia's rural housing problems.

1. Housing quality. Rural areas have a higher level of substandard housing than do metropolitan areas.

2. Rental housing. Rural areas have a serious shortage of low cost rental housing.

3. Barriers to homeownership. Rural areas have mortgage credit supply shortages which create an additional barrier to first-time homeownership.

Housing Quality

Georgia has made tremendous progress over the last 20 years in improving housing quality throughout the state. Although the Census Bureau has not measured housing quality directly since the 1960 census, an historic measure of substandardness -- lack of complete plumbing facilities -- gives an indication of the progress which has been made. Between 1970 and 1988, the percentage of all housing units in Georgia without complete indoor plumbing facilities has dropped from 13% (188,000 units) to less than 5% (42,000 units.) Complete plumbing facilities are defined as hot and cold running water, kitchen sink, bathing facilities, toilet, and bathroom sink.

Despite this exceptional progress, housing in rural areas is twice as likely as housing in the state as a whole, and seven times as likely as housing in metropolitan areas, to lack complete plumbing facilities. The problem is much more acute in rental housing than it is in owner-occupied housing. In seventeen counties, more than 15% of the rental housing stock lacks complete indoor plumbing. (Calhoun, Clay, Crawford, Hancock, Jenkins, Johnson, Marion, Quitman, Randolph, Schley, Stewart, Talbot, Taliaferro, Twiggs, Warren, Washington, Webster). Substandardness is most severe in Hancock, Quitman, Talbot, Taliaferro, Warren, and Webster counties. In each of these counties, more than 20% of the rental housing stock, and more than 3% of the owner occupied stock, lacks complete indoor plumbing.

Unfortunately, measuring the presence of indoor plumbing alone is insufficient to ascertain the true extent of housing quality problems in rural Georgia. For example, a house can have complete indoor plumbing, but be only marginally habitable due to a leaking roof or rotting floor. An otherwise acceptable house may have dangerous wiring or an inadequate heating system. Questions about these types of housing quality concerns are not asked by the Census Bureau. GRFA is aware of them because citizens contact us on the average of one call per day seeking financial assistance to make such repairs. About half of the calls come from rural counties. We regularly refer callers to the Farmers Home Administration or to Community Action Agencies for assistance since GRFA does not currently have a comprehensive housing rehabilitation assistance program.

Development of a housing rehabilitation program is a priority for the Authority. In May, 1990, we applied to the Office of Community Services in the U. S. Department of Health and Human Services for grant funding to develop a modest ($500,000) rehabilitation grant program for very low income rural families. If this grant application is funded, we will be able to create a program delivery system which could be adapted for a larger program offering both grants and low interest loans. We are awaiting a reply from OCS and are hopeful that this grant will be approved.

At the present time, the Authority's major rehabilitation initiative for homeowners, the Georgia Energy Fund, works with rural electric membership corporations to provide low interest loans and loan/grant combinations to low and

moderate income households needing energy conservation work. Not only does the Energy Fund provide financial assistance but, in partnership with the electric membership corporations and private contractors, the program gives homeowners the advice and information they need to choose energy conservation measures wisely. This program is capitalized with oil overcharge settlement funds award through the Governor's Office of Energy Resources and cannot be used for non-energy related repairs. We have completed over 1200 houses during that time, and awarded over $2.9 million. Our success with the Energy Fund over the last three years indicates that rural homeowners are seeking financial resources to improve their homes.

Rental Housing

The basic economics of rental housing create unique difficulties for rural areas. First, incomes in the community must be sufficient to pay rents which cover the operating, maintenance, and debt service costs of the development. And, secondly, demand for rental housing must be strong enough for the development to attract tenants. Last year, GRFA commissioned Georgia Tech to study these issues. A copy of the report is attached, but to summarize, the researchers found that rural communities in Georgia could not provide either sufficient rents or sufficient demand to attract rental housing investment, even for a small 8-unit development.

GRFA has considerable direct experience with rental housing needs of rural Georgia, from both the demand side and the supply side. On the demand side, GRFA has administered for 15 years the Section 8 Rental Assistance Program in 149 counties, most of them rural.* The Section 8 program, whether vouchers or certificates, is one of the most vital resources available for addressing the housing needs of low income rural families. We currently administer over 8000 certificates and vouchers, providing nearly $23 million per year in rent subsidies. Working out of five field offices, located in Albany, Athens, Carrollton, Eastman, and Waycross, GRFA has direct contact with the rural rental housing market on a daily basis.

On the supply side, we administer the Low Income Housing Tax Credit, the nation's most important tool for low income rental housing production. Since we began administering the program in 1987, tax credits have generated over 8,000 units of low income housing in Georgia. Since 1988, 100% of Georgia's tax credit allocations have been awarded and demand for the credits exceeds supply. The Tax Credit is due to expire at the end of 1990. Given its role in producing affordable rental housing, GRFA strongly urges that this successful program be extended. If it expires and no other program is substituted, low income rental housing production will be severely curtailed, perhaps virtually cease, throughout Georgia.

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*NOTE: The counties in which GRFA does not administer the Section 8 Rental Assistance Program are: Bibb, Chatham, Clayton, Cobb, DeKalb, Fulton, Glynn, Muscogee, Richmond, Sumter, and the City of Atlanta.

The Farmers Home Administration Section 515 Rural Rental Housing loan program is essential to the success of the Tax Credit program in rural Georgia. Of the 27 projects receiving credits in our first 1990 award cycle, 18 are using Farmers Home financing. Because these projects generally must be small to match rural market needs, they use only 20% of the statewide tax credit allocation. There is also a reduction in the amount of credit which they receive because of the use of other federal funds. However, the Low Income Housing Tax Credit alone would not be enough of an incentive to build new rental housing in rural areas. In our opinion, rural rental housing development would come to a complete halt if the Farmers Home Rural Rental Housing program were discontinued. We were very pleased to see that S. 566 increases the authorization for this program and encourage the Budget Committee to consider full funding for it in 1991.

A second supply side program which we administer is the Rental Rehabilitation Program. This federally-funded program provides forgivable loans to private landlords who rehabilitate their rental property and agree to keep the units affordable to low income families for several years. GRFA works in cooperation with 20 medium and smaller cities to make this program a success. Since commencing in 1986, GRFA has assisted in the rehabilitation of over 1250 units. In financial terms, GRFA has leveraged over $8.5 million in private funds with $6 million in public funds.

S. 566 consolidates Rental Rehabilitation into the Housing Opportunity Partnership program. If HOP passes in the final bill, GRFA will use HOP funds to continue this important and effective rehabilitation program. If HOP is not included in the final bill, we encourage the continuation of the Rental Rehabilitation Program as a categorical program. It is the only program which specifically addresses the housing quality needs of rental housing, helping to keep units in the housing stock which might otherwise be lost.

Barriers to Homeownership

The low and moderate income family faces numerous hurdles to attaining homeownership, whether that family resides in a rural area or a metropolitan area. Finding a satisfactory house in their price range, raising the downpayment and other up-front costs, and qualifying for a mortgage are common to all buyers. For the rural family, however, several factors increase the difficulty of becoming a homeowner.

Of primary concern is the availability of mortgage credit in rural communities. Rural communities have fewer mortgage lenders, such as savings and loans and mortgage bankers, than do metropolitan areas. Those that do serve rural areas often have relatively small pools of lendable funds. Lower incomes in rural areas also make it more difficult to qualify for a mortgage, although lower housing prices compensate somewhat for lower incomes. Lack of mortgage capital also limits the availability of credit for homebuilders, thus reducing the supply of new houses for homebuyers. Most new homes in rural Georgia are either custom-

built or manufactured homes. In many counties, manufactured homes are the best option for a first-time homebuyer because site-built housing is too expensive.

Rural mortgage credit needs are met in part with the homeownership programs of the Farmers Home Administration. Another resource which helps to meet rural mortgage credit needs is GRFA's mortgage revenue bond program for first-time homebuyers.

Under the MRB program, first-time homebuyers who meet income eligibility guidelines can obtain a lower-than-market rate mortgage. However, because of mortgage credit shortages in rural areas, GRFA has targeted 80 counties, almost all of them rural, in which any income-eligible homebuyer can apply for MRB financing. GRFA relies on local real estate professionals and mortgage lending institutions to assist homebuyers in applying for the program.

Since its inception in 1976, the GRFA home loan program has made over 15,000 loans. 55% of those loans have been made to homebuyers residing in rural counties. 25% of the total loans have been made in targeted counties. GRFA has borrowers in 157 of Georgia's 159 counties -- Chattahoochee and Wilkinson are the last two.

To overcome the downpayment barrier, GRFA relies heavily on the Mutual Mortgage Loan Insurance Program of the Federal Housing Administration, commonly known as FHA mortgage insurance. FHA insured loans require a much lower downpayment than do either privately insured loans or uninsured loans. 60% of GRFA's mortgages are FHA insured. Another 25% are insured by the Department of Veterans Affairs (VA insurance) and the remaining 15% are insured by private mortgage insurance companies. GRFA does not currently have a downpayment assistance program.

Affordability: The Overriding Concern

Of course, the overriding housing issue for low and moderate income rural households is affordability: Can the household locate decent, safe, and sanitary housing in the community they choose without spending a disproportionate share of their income on housing costs? From our experience with rural housing activities, the answer is: "Yes, but with great and increasing difficulty." Locating affordable rental housing is much more difficult than locating affordable owner-occupied housing. For this reason, we believe that rural rental housing cannot be developed or preserved without some form of subsidy, either on the supply side through tax credits and low interest loans, on the demand side through rent supplements, or through a combination of supply side and demand side assistance.

Using current (1/1990) HUD median income information, GRFA has estimated for each county the amount which a 4-person household could pay in housing and utility costs. We used the commonly accepted rule of thumb that no more than 30% of a household's income should go for housing and utility costs. We also

adjusted for 80% of the median and 50% of the median. The county-by-county listing is attached as Appendix 1.

In 32 counties, a household earning 50% of the current county median would have $300.00 or less per month to spend on housing costs. Since rents in rural areas rarely drop below $250.00 per month and are more commonly around $300.00, based on our experience with the Section 8 program, these households would have difficultly finding rental housing. Households earning less than 50% of the county median would have less to spend and thus have even greater difficulty. And, a minimum wage job would pay less than 50% of county median in every county in Georgia. Homeownership is probably out of the question for these households.

Recommendations

In light of Georgia's rural housing needs in the areas of housing quality, rental supply, mortgage credit availability, and general affordability, GRFA encourages the Budget Committee to consider these recommendations:

1. We strongly urge the extension of both the Mortgage Revenue Bond Program and the Low Income Housing Tax Credit. These two program are invaluable in meeting the housing needs of rural Georgians. Both are set to expire in 1990. We further support multiple year extensions to increase the stability of the programs and to allow for long-range planning by both the public sector and the private sector.

2. We request that Congress revisit and reconsider the MRB Recapture provision enacted in the Technical and Miscellaneous Revenue Act of 1988. We have studied this provision and we believe that it will discourage first-time homebuyers from participating in the MRB program. However, if Congress insists on retaining a recapture requirement,I believe that the Recapture provisions are too cumbersome and unnecessarily complicated. The National Council of State Housing Agencies has developed a simplification plan which we support. A copy of that proposal is attached.

3. We urge the continuation and expansion of the Section 8 Rental Assistance Program as a housing program. Section 8 is the single largest form of housing assistance for rural low income families available in the state. Statewide, nearly 25,000 households receive Section 8 subsidies, either certificates or vouchers, and hundreds more are on waiting lists. The continuation of this program is absolutely essential to housing low income families.

4. The changes in FHA's mortgage insurance program which were adopted by the Senate in S. 566 are a great concern to GRFA. As noted previously, 60% of GRFA's mortgages are insured by FHA. In rural areas, FHA is the dominant mortgage insurer. Private mortgage insurance companies tend not to work in rural areas because of their standardization requirements

and because of the small size of the market -- there simply is not enough business in rural areas to make it worth their while.

The risk-based premium structure adopted by the Senate, we believe, creates a new barrier to homeownership for first-time homebuyers. By increasing the upfront costs required, as this plan does, FHA would become part of the problem rather than part of the solution. Upfront costs (downpayment, closing costs, legal fees) are the most difficult hurdle for most first-time buyers, particularly younger families. We recognize the need for a fiscally sound FHA insurance fund, but from a public purpose standpoint, the changes contained in S. 566 move FHA further away from its goal of helping Americans achieve homeownership.

5. Finally, GRFA joins with other state housing finance agencies in supporting the Housing Opportunity Partnership program contained in S. 566. HOP provides funding with flexibility, a combination which state housing agencies and local communities need in order to target assistance to priorities. GRFA welcomes the opportunity which HOP will provide to develop new strategies and new initiatives for affordable housing in Georgia. We specifically view HOP as necessary for continuing our highly successful Rental Rehabilitation Program; beginning a statewide, comprehensive homeowner rehabilitation program; and, strengthening the capacity of nonprofit housing development corporations working in rural areas.

   Our support of HOP is not without its concern regarding the share of HOP funds awarded to states as envisioned in S. 566. The legislation directs that 60% of HOP funds go to entitlement urban areas and 40% go to state agencies for use in nonurban areas. We believe that these percentages are unbalanced given the number of communities, the dispersal of the rural population, the lack of other flexible resources for rural areas, and the scope of housing problems in rural areas. We strongly recommend that distribution of HOP funds be changed so that 60% goes to states for use statewide with the remainder to entitlement urban areas.

This concludes my prepared remarks. Again, thank you for the opportunity to share our observations and concerns about rural housing needs in Georgia.

INCOME AVAILABLE FOR HOUSING AND UTILITY COSTS BY COUNTY
BASED ON MEDIAN COUNTY INCOME FOR 4-PERSON HOUSEHOLD, ADJUSTED FOR 80% AND 50% OF MEDIAN INCOME

Note: Share for housing equals 30% of monthly median income. All figures in dollars.

COUNTY	COUNTY SEAT	100% OF COUNTY MEDIAN INCOME			80% OF COUNTY MEDIAN INCOME			50% OF COUNTY MEDIAN INCOME		
		ANNUAL	MONTHLY	SHARE FOR HOUSING	ANNUAL	MONTHLY	SHARE FOR HOUSING	ANNUAL	MONTHLY	SHARE FOR HOUSING
Appling	Baxley	23300	1942	583	18640	1553	466	11650	971	291
Atkinson	Pearson	21300	1775	533	17040	1420	426	10650	888	266
Bacon	Alma	25500	2125	638	20400	1700	510	12750	1063	319
Baker	Newton	24000	2000	600	19200	1600	480	12000	1000	300
Baldwin	Milledgeville	32500	2708	813	26000	2167	650	16250	1354	406
Banks	Homer	27700	2308	693	22160	1847	554	13850	1154	346
Barrow	Winder	41500	3458	1038	33200	2767	830	20750	1729	519
Bartow	Cartersville	31400	2617	785	25120	2093	628	15700	1308	393
Ben Hill	Fitzgerald	23800	1983	595	19040	1587	476	11900	992	298
Berrien	Nashville	25500	2125	638	20400	1700	510	12750	1063	319
Bibb	Macon	35600	2967	890	28480	2373	712	17800	1483	445
Bleckley	Cochran	31100	2592	778	24880	2073	622	15550	1296	389
Brantley	Nahunta	26500	2208	663	21200	1767	530	13250	1104	331
Brooks	Quitman	21300	1775	533	17040	1420	426	10650	888	266
Bryan	Pembroke	28100	2342	703	22480	1873	562	14050	1171	351
Bulloch	Statesboro	28100	2342	703	22480	1873	562	14050	1171	351
Burke	Waynesboro	27500	2292	688	22000	1833	550	13750	1146	344
Butts	Jackson	27500	2292	688	22000	1833	550	13750	1146	344
Calhoun	Morgan	24000	2000	600	19200	1600	480	12000	1000	300
Camden	Woodbine	28700	2392	718	22960	1913	574	14350	1196	359
Candler	Metter	22300	1858	558	17840	1487	446	11150	929	279
Carroll	Carrollton	31200	2600	780	24960	2080	624	15600	1300	390
Catoosa	Ringgold	29700	2475	743	23760	1980	594	14850	1238	371
Charlton	Folkston	27100	2258	678	21680	1807	542	13550	1129	339
Chatham	Savannah	33300	2775	833	26640	2220	666	16650	1388	416
Chattahoochee	Cusseta	29200	2433	730	23360	1947	584	14600	1217	365
Chattooga	Summerville	27900	2325	698	22320	1860	558	13950	1163	349
Cherokee	Canton	41500	3458	1038	33200	2767	830	20750	1729	519
Clarke	Athens	30800	2567	770	24640	2053	616	15400	1283	385
Clay	Fort Gaines	19500	1625	488	15600	1300	390	9750	813	244
Clayton	Jonesboro	41500	3458	1038	33200	2767	830	20750	1729	519
Clinch	Homerville	25100	2092	628	20080	1673	502	12550	1046	314
Cobb	Marietta	41500	3458	1038	33200	2767	830	20750	1729	519
Coffee	Douglas	23800	1983	595	19040	1587	476	11900	992	298
Colquitt	Moultrie	26300	2192	658	21040	1753	526	13150	1096	329
Columbia	Appling	33700	2808	843	26960	2247	674	16850	1404	421

COUNTY	COUNTY SEAT	100% OF COUNTY MEDIAN INCOME			80% OF COUNTY MEDIAN INCOME			50% OF COUNTY MEDIAN INCOME		
		ANNUAL	MONTHLY	SHARE FOR HOUSING	ANNUAL	MONTHLY	SHARE FOR HOUSING	ANNUAL	MONTHLY	SHARE FOR HOUSING
Cook	Adel	24700	2058	618	19760	1647	494	12350	1029	309
Coweta	Newnan	41500	3458	1038	33200	2767	830	20750	1729	519
Crawford	Roberta	38000	3167	950	30400	2533	760	19000	1583	475
Crisp	Cordele	27900	2325	698	22320	1860	558	13950	1163	349
Dade	Trenton	29700	2475	743	23760	1980	594	14850	1238	371
Dawson	Dawsonville	25900	2158	648	20720	1727	518	12950	1079	324
Decatur	Bainbridge	26300	2192	658	21040	1753	526	13150	1096	329
DeKalb	Decatur	41500	3458	1038	33200	2767	830	20750	1729	519
Dodge	Eastman	24200	2017	605	19360	1613	484	12100	1008	303
Dooly	Vienna	24500	2042	613	19600	1633	490	12250	1021	306
Dougherty	Albany	32800	2733	820	26240	2187	656	16400	1367	410
Douglas	Douglasville	41500	3458	1038	33200	2767	830	20750	1729	519
Early	Blakely	24100	2008	603	19280	1607	482	12050	1004	301
Echols	Statenville	24300	2025	608	19440	1620	486	12150	1013	304
Effingham	Springfield	33300	2775	833	26640	2220	666	16650	1388	416
Elbert	Elberton	27200	2267	680	21760	1813	544	13600	1133	340
Emanuel	Swainsboro	27500	2292	688	22000	1833	550	13750	1146	344
Evans	Claxton	23000	1917	575	18400	1533	460	11500	958	288
Fannin	Blue Ridge	21900	1825	548	17520	1460	438	10950	913	274
Fayette	Fayetteville	41500	3458	1038	33200	2767	830	20750	1729	519
Floyd	Rome	32800	2733	820	26240	2187	656	16400	1367	410
Forsyth	Cumming	41500	3458	1038	33200	2767	830	20750	1729	519
Franklin	Carnesville	25500	2125	638	20400	1700	510	12750	1063	319
Fulton	Atlanta	41500	3458	1038	33200	2767	830	20750	1729	519
Gilmer	Ellijay	24200	2017	605	19360	1613	484	12100	1008	303
Glascock	Gibson	30900	2575	773	24720	2060	618	15450	1288	386
Glynn	Brunswick	32000	2667	800	25600	2133	640	16000	1333	400
Gordon	Calhoun	30300	2525	758	24240	2020	606	15150	1263	379
Grady	Cairo	24000	2000	600	19200	1600	480	12000	1000	300
Greene	Greensboro	23800	1983	595	19040	1587	476	11900	992	298
Gwinnett	Lawrenceville	41500	3458	1038	33200	2767	830	20750	1729	519
Habersham	Clarkesville	27200	2267	680	21760	1813	544	13600	1133	340
Hall	Gainesville	34700	2892	868	27760	2313	694	17350	1446	434
Hancock	Sparta	21100	1758	528	16880	1407	422	10550	879	264
Haralson	Buchanon	29200	2433	730	23360	1947	584	14600	1217	365
Harris	Hamilton	34400	2867	860	27520	2293	688	17200	1433	430
Hart	Hartwell	27000	2250	675	21600	1800	540	13500	1125	338
Heard	Franklin	27800	2317	695	22240	1853	556	13900	1158	348
Henry	McDonough	41500	3458	1038	33200	2767	830	20750	1729	519
Houston	Perry	35600	2967	890	28480	2373	712	17800	1483	445
Irwin	Ocilla	22400	1867	560	17920	1493	448	11200	933	280

COUNTY	COUNTY SEAT	100% OF COUNTY MEDIAN INCOME			80% OF COUNTY MEDIAN INCOME			50% OF COUNTY MEDIAN INCOME		
		ANNUAL	MONTHLY	SHARE FOR HOUSING	ANNUAL	MONTHLY	SHARE FOR HOUSING	ANNUAL	MONTHLY	SHARE FOR HOUSING
Jackson	Jefferson	30800	2567	770	24640	2053	616	15400	1283	385
Jasper	Monticello	26900	2242	673	21520	1793	538	13450	1121	336
Jeff Davis	Hazelhurst	28700	2392	718	22960	1913	574	14350	1196	359
Jefferson	Louisville	25600	2133	640	20480	1707	512	12800	1067	320
Jenkins	Millen	24100	2008	603	19280	1607	482	12050	1004	301
Johnson	Wrightsville	24200	2017	605	19360	1613	484	12100	1008	303
Jones	Gray	35600	2967	890	28480	2373	712	17800	1483	445
Lamar	Barnesville	26900	2242	673	21520	1793	538	13450	1121	336
Lanier	Lakeland	22800	1900	570	18240	1520	456	11400	950	285
Laurens	Dublin	27600	2300	690	22080	1840	552	13800	1150	345
Lee	Leesburg	32800	2733	820	26240	2187	656	16400	1367	410
Liberty	Hinesville	21800	1817	545	17440	1453	436	10900	908	273
Lincoln	Lincolnton	33300	2775	833	26640	2220	666	16650	1388	416
Long	Ludowici	22200	1850	555	17760	1480	444	11100	925	278
Lowndes	Valdosta	27300	2275	683	21840	1820	546	13650	1138	341
Lumpkin	Dahlonega	26000	2167	650	20800	1733	520	13000	1083	325
Macon	Oglethorpe	23600	1967	590	18880	1573	472	11800	983	295
Madison	Danielsville	30800	2567	770	24640	2053	616	15400	1283	385
Marion	Buena Vista	23900	1992	598	19120	1593	478	11950	996	299
McDuffie	Thomson	33700	2808	843	26960	2247	674	16850	1404	421
McIntosh	Darien	21300	1775	533	17040	1420	426	10650	888	266
Meriwether	Greenville	29100	2425	728	23280	1940	582	14550	1213	364
Miller	Colquitt	24100	2008	603	19280	1607	482	12050	1004	301
Mitchell	Camilla	26800	2233	670	21440	1787	536	13400	1117	335
Monroe	Forsyth	36100	3008	903	28880	2407	722	18050	1504	451
Montgomery	Mount Vernon	22600	1883	565	18080	1507	452	11300	942	283
Morgan	Madison	29300	2442	733	23440	1953	586	14650	1221	366
Murray	Chatsworth	30400	2533	760	24320	2027	608	15200	1267	380
Muscogee	Columbus	29200	2433	730	23360	1947	584	14600	1217	365
Newton	Covington	41500	3458	1038	33200	2767	830	20750	1729	519
Oconee	Watkinsville	30800	2567	770	24640	2053	616	15400	1283	385
Oglethorpe	Lexington	28200	2350	705	22560	1880	564	14100	1175	353
Paulding	Dallas	41500	3458	1038	33200	2767	830	20750	1729	519
Peach	Fort Valley	35600	2967	890	28480	2373	712	17800	1483	445
Pickens	Jasper	26400	2200	660	21120	1760	528	13200	1100	330
Pierce	Blackshear	25500	2125	638	20400	1700	510	12750	1063	319
Pike	Zebulon	29900	2492	748	23920	1993	598	14950	1246	374
Polk	Cedartown	29900	2492	748	23920	1993	598	14950	1246	374
Pulaski	Hawkinsville	26600	2217	665	21280	1773	532	13300	1108	333
Putnam	Eatonton	30900	2575	773	24720	2060	618	15450	1288	386
Quitman	Georgetown	19600	1633	490	15680	1307	392	9800	817	245

COUNTY	COUNTY SEAT	100% OF COUNTY MEDIAN INCOME			80% OF COUNTY MEDIAN INCOME			50% OF COUNTY MEDIAN INCOME		
		ANNUAL	MONTHLY	SHARE FOR HOUSING	ANNUAL	MONTHLY	SHARE FOR HOUSING	ANNUAL	MONTHLY	SHARE FOR HOUSING
Rabun	Clayton	24500	2042	613	19600	1633	490	12250	1021	306
Randolph	Cuthbert	23300	1942	583	18640	1553	466	11650	971	291
Richmond	Augusta	33700	2808	843	26960	2247	674	16850	1404	421
Rockdale	Conyers	41500	3458	1038	33200	2767	830	20750	1729	519
Schley	Ellaville	27300	2275	683	21840	1820	546	13650	1138	341
Screven	Sylvania	23600	1967	590	18880	1573	472	11800	983	295
Seminole	Donalsonville	24800	2067	620	19840	1653	496	12400	1033	310
Spalding	Griffin	41500	3458	1038	33200	2767	830	20750	1729	519
Stephens	Toccoa	27800	2317	695	22240	1853	556	13900	1158	348
Stewart	Lumpkin	19800	1650	495	15840	1320	396	9900	825	248
Sumter	Americus	29400	2450	735	23520	1960	588	14700	1225	368
Talbot	Talbotton	27900	2325	698	22320	1860	558	13950	1163	349
Taliaferro	Crawfordville	22800	1900	570	18240	1520	456	11400	950	285
Tattnall	Reidsville	21100	1758	528	16880	1407	422	10550	879	264
Taylor	Butler	27700	2308	693	22160	1847	554	13850	1154	346
Telfair	McRae	21900	1825	548	17520	1460	438	10950	913	274
Terrell	Dawson	24500	2042	613	19600	1633	490	12250	1021	306
Thomas	Thomasville	27200	2267	680	21760	1813	544	13600	1133	340
Tift	Tifton	26500	2208	663	21200	1767	530	13250	1104	331
Toombs	Lyons	23300	1942	583	18640	1553	466	11650	971	291
Towns	Hiawassee	20200	1683	505	16160	1347	404	10100	842	253
Treutlen	Soperton	23100	1925	578	18480	1540	462	11550	963	289
Troup	LaGrange	30600	2550	765	24480	2040	612	15300	1275	383
Turner	Ashburn	23800	1983	595	19040	1587	476	11900	992	298
Twiggs	Jeffersonville	33900	2825	848	27120	2260	678	16950	1413	424
Union	Blairsville	19000	1583	475	15200	1267	380	9500	792	238
Upson	Thomaston	26500	2208	663	21200	1767	530	13250	1104	331
Walker	LaFayette	29700	2475	743	23760	1980	594	14850	1238	371
Walton	Monroe	41500	3458	1038	33200	2767	830	20750	1729	519
Ware	Waycross	27800	2317	695	22240	1853	556	13900	1158	348
Warren	Warrenton	27200	2267	680	21760	1813	544	13600	1133	340
Washington	Sandersville	25500	2125	638	20400	1700	510	12750	1063	319
Wayne	Jesup	27000	2250	675	21600	1800	540	13500	1125	338
Webster	Preston	23300	1942	583	18640	1553	466	11650	971	291
Wheeler	Alamo	19100	1592	478	15280	1273	382	9550	796	239
White	Cleveland	27400	2283	685	21920	1827	548	13700	1142	343
Whitfield	Dalton	32900	2742	823	26320	2193	658	16450	1371	411
Wilcox	Rochelle	24500	2042	613	19600	1633	490	12250	1021	306
Wilkes	Washington	30800	2567	770	24640	2053	616	15400	1283	385
Wilkinson	Irwinton	30600	2550	765	24480	2040	612	15300	1275	383
Worth	Sylvester	28300	2358	708	22640	1887	566	14150	1179	354

Senator FOWLER. Terry?

Senator SANFORD. Do you get any community development block grant money?

Mr. HUCKABY. No, sir.

Senator SANFORD. You do not. Where does that go?

Mr. HUCKABY. The Small Cities and Communities Block Grant Program is administered by the Department of Community Affairs, and they have got some representatives here this morning, and we work very closely with them, but we do not get any direct funds ourselves.

Sometimes we work with projects in communities that are getting some of those funds, as well as some funds from other sources.

Senator SANFORD. Where do your funds come from?

Mr. HUCKABY. Well, the preponderance of our funds come from issuing bonds, and over the years since we have been in business for 15 years we have developed some surplus moneys, and that is how we have been able to do the nonprofit program, grant funds.

For the first time in the history of the authority beginning 3 years ago State government began to appropriate some moneys to us, primarily or specifically to match Federal McKinney dollars, and they have continued to do that. I think this is another positive sign that State government is moving in this area.

In the last session of the legislature, the legislature funded the Georgia Housing Trust Fund for the first time, and we have a $5 million appropriation.

Now, as far as the financial crisis we are in, it is frozen right now, but we are working very closely with the Harris administration to unfreeze that.

Senator SANFORD. Now, what kind of a bonded indebtedness have you got?

Mr. HUCKABY. Right now our bonded indebtedness is probably in the neighborhood of $600 million.

Senator SANFORD. Now, how is that going to be ultimately liquidated?

Mr. HUCKABY. The mortgages that we have financed are the security for those bonds.

Senator SANFORD. Is it ample?

Mr. HUCKABY. Oh, yes, absolutely.

Senator SANFORD. You are not likely to have a shortfall?

Mr. HUCKABY. No, sir.

Senator SANFORD. And you are watching that with various required and I am sure self——

Mr. HUCKABY. Well, let me be honest with you now. The preponderance of those mortgages are either FHA or VA insured, but we have never lost—the reserve that we have set aside to handle any losses on the HUD foreclosure. we have never come close to just using the interest on that reserve, much less the principal, plus our default rate is below the national average.

Senator SANFORD. Well, we are going to run out of time, but because of that program's relationship—what is your experience and what are your procedures for default and foreclosure? Have you more or less washed your hands of that when you——

Mr. HUCKABY. By and large, because of the way these programs typically work in most States, Senator, is that we in essence have a

business relationship with the private sector. In other words, the private mortgage lender does the servicing, and then when a loan goes into like 90 days, pretty much like Farmers Home then they automatically start the default procedure.

Senator SANFORD. And if that house is foreclosed, then it is a drag on the market and it is not disposed of, you do not take any loss on that, do you?

Mr. HUCKABY. No.

One thing that we have done in working with FHA and their foreclosed portfolio—we have done this for the last three bond issues—we have set aside 15 percent of our bond proceeds with the target specifically to refinance their foreclosures, and what HUD has been doing pretty aggressively is they are being aggressive in their repricing for those homes, and secondly they are charging a much smaller down payment, and so we have been able working with HUD and through HUD to target those homes to a lower income family.

Senator SANFORD. Who then picks up that loan when they reprice it and refinance it and resell it?

Mr. HUCKABY. We provide the financing, and it becomes a part of our portfolio.

Senator SANFORD. And then it goes back to some lender?

Mr. HUCKABY. They just service it for us. It is part of our portfolio, but the lender is servicing it, and it continues to be a HUD guaranteed loan.

Senator SANFORD. And it is guaranteed, so——

Well, there are a lot of other interesting questions, but I think we have to move pretty soon to the other panel. I am through for the moment.

Mr. HUCKABY. OK.

Senator FOWLER. Mr. Harris, I got a letter from the National Rural Housing Coalition, knowing we were going to do this hearing, asking about the water/sewer loan grant funds allocated to Georgia. They say that in fiscal year 1989 that we received some $3.5 million in grant funds and $10.9 million in loan funds, and they say only $1.9 million of the grant money was spent, and only about $3 million of the loan money was spent.

I know we have got a tremendous backlog in Georgia on water-sewer applications. Is that true? Why are we not——

Mr. HARRIS. Yes, sir. We had a management change in that area of our business last year, Senator, and just prior to coming on board, and I think you will find this year that we do utilize much more of those resources than were used in the past. It was not, quite frankly, one of our best managed programs.

Senator FOWLER. Well, that answers the question I guess. I do not have to tell anybody in Georgia if there is any problem we have got it is water and sewerage right now.

Mr. HARRIS. We have a number of projects working right now.

Senator FOWLER. I would like to see us be the leader in the country and turn that around from being the tail to the leader next year, and we would get a lot more help and confidence from all of our cities and rural areas if we could show that that money was spent effectively and was being used to solve a major public problem for the State.

Mr. HARRIS. Senator, I think when you look at this year you will see a vast improvement.

Senator FOWLER. Good.

Gentlemen, I have got a hundred questions I would like to ask, but I do guess we ought to go to our next panel so they will not starve.

Thank you all very, very much for your participation, and I hope that if you do not have to go that you will hang around in case we have any other questions.

[Applause.]

Senator FOWLER. I have been in forty to a hundred congressional hearings, that is the first time a panel has ever been applauded, so they must have done a good job.

We welcome Mr. Doug Gaskins of the Georgia Banking Association, Bob Couey of Overview Housing Assistance Corporation, and Dan Raines of Farm Credit Bank.

Gentlemen, thank you for your participation, and if you will follow to the best you can the fine example of our other panel and summarize your testimony and let us talk to you a little bit, your complete remarks, charts and figures and anything will be made a complete part of the record so that we will have all that when it is published.

We can start left to right with Mr Gaskins.

Senator SANFORD. They are in that order on our list, I think.

Senator FOWLER. All right. Good.

We welcome first Mr. Doug Gaskins of the Georgia Bankers Association.

STATEMENT OF DOUG GASKINS, GEORGIA BANKERS ASSOCIATION

Mr. GASKINS. Thank you, sir.

My area of interest or viewpoint might be slightly different than some of the other panelists that have already been heard here today.

Senator FOWLER. That is because you are a cold-hearted banker.

Mr. GASKINS. That is exactly right. [Laughter.]

But we are looking at an area of rural financing that is not government-subsidized, hopefully, but it does not have a market, it is not available. There is not a secondary market available because of the individual's income and the price of the homes that we are discussing.

We are looking at homes approximately $50,000 and under, which that may sound cheap or, you know, may not be reasonable to urban areas, but in rural areas such as our community you can build a home for $50,000 and under, a nice single-family home.

The problem of financing that is the secondary markets are not interested in that because of several economic factors. The people who can afford those homes generally are middle income people—I say middle income, I am talking specifically about my community, $1,200 to $2,000 type income, and they are middle management or assembly line working positions, and the price and the economics of processing a $50,000 loan and a $25,000 loan cost just as much for the institution as it does for $100,000, and they would rather do

one 100 than have to do four 25s, they can do them so much cheaper.

In our area it is not the public housing that is a problem, the public housing in our area is—we have a nice facility, and we are proud of it, and it does a good job in our community, but those were built by contractors out of the county, and sometimes out of the State. To pay for it, the money is sent from Washington to a money center bank in New York to pay for it, and really except for providing the shelter it has no effect on our community.

Senator SANFORD. That is another change you want us to make, is it not, where the money——

Mr. GASKINS. We appreciate the facility there, it is a nice facility and does a good job, but what our area is interested in is trying to make available housing for people who can and desire to own their own home, but are in an economic strata that simply there is not a market available for them today.

And the home would be built by a local contractor or a father and son construction company, the supplies would be bought at the local hardware store, the furniture would be bought in the mom and pop operation financed by a local bank, and it would just create an industry within itself in our community.

We feel that that is the area that is not being addressed because there is just not a market for it, there is no help for it.

[The prepared statement of Mr. Gaskins follows:]

The UNITED
BANKING COMPANY

ORGANIZED 1924

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July 25, 1990

The Honorable Wyche Fowler, Jr.
United States Senate
Committee On The Budget
Washington, DC 20510-6100

The Honorable Terry Sanford
United States Senate
Committee On The Budget
Washington, DC 20510-6100

RE: Senate Budget Committee Field Hearing on Rural Housing

Dear Sirs:

When we began to research the possibility of offering residential mortgage financing, we understood that our market area was confined to a very small geographic location. However, we felt that while small in geographic location, our area fairly represented an environment applicable to any rural community.

Our initial findings indicated that secondary markets do not desire to extend their energies and resources in rural residential financing. This is indicated by the fact that smaller loan-to-value ratios are required, higher discount points are charged, and an individual's financial condition seems to be more closely scrutinized in a rural housing application versus an urban application. Another finding of our investigation and our subsequent lending experience has guided us to the conclusion that mortgage loans are ranked basically in two categories:

$50,000 and above and under $50,000. Secondary markets for loans above $50,000 are available within the more restricted parameters as mentioned above, while our experience indicates that markets for loans below $50,000 are very limited and/or cost prohibited due to the increase charges imposed by secondary markets.

Experience has also proven that certified appraisers will consistently devalue property by approximately 10% due to the fact that it is in a rural environment versus and urban setting. This statement is not intended as a criticism against the chosen profession of these qualified individuals, but simply a statement about a condition which exist in the area of your investigation today. Our limited experience has also proven that this devaluation of rural property is not always justifiable. In our given community, a rural setting sometimes enhances the property versus the same real estate located within incorporated limits of the community.

Our average customers are 39 years old with monthly incomes of approximately $1,337.00. They are in lower management or line assembly-type positions. It is our opinion that due to the fact that these persons normally have no more than a high school education and limited job skills combined with the fact that they usually have a very low savings rate, are paid on a weekly or bimonthly basis, and normally have very little or no equity on which to resort in times of economic tightness, that we feel the secondary market finds this risk unacceptable.

However, our experience indicates that these individuals are very credit worthy and, to date, we have had no adverse action due to nonpayment, and our delinquencies in excess of two payments are virtually nonexistent.

While compiling this information concerning our mortgage loan lending program, we also recorded the same information concerning those loan applications in which we were forced to make credit denials. The average age of the borrower denied was approximately the same as that of the borrower whose credit was approved, while the income of the borrower denied was approximately $250.00 per month higher in the amount $1,578.00 per month. Approximately 30-35% of the credit denials were for excessive obligations or unsatisfactory credit reports, which would probably result in that individual(s) being denied credit under most any circumstances. The other reason for the denial of credit was a change of the applicant's plans or failure or unwillingness to complete the required application. The remaining 60-70% percent of those denied were denied primarily because of lack of down payment to meet our credit requirements. These people appear to be credit worthy individuals with average or better ability to manage their personal finances and have been employed by their present employer for a length of time to prove reliability and dependability, but have been unable to save the required down payment.

Our mortgage lending program has been in full operation for

approximately two years and, to date, our mortgage loan portfolio has risen to 10% of our entire loan portfolio. Our closing costs, discount points, and underwriting requirements are very consistent with the secondary market's requirements. The only difference being our rate is approximately 100-150 basis points higher than the average secondary market mortgage rate. Our rate is based on an independent index, as required by law, and on our average loan of $22,000 the increased cost to the consumer is approximately $23 per month. We feel that this is a fair price for providing a service for loans which would not be saleable in the secondary market and providing a service previously unavailable.

To the best of our knowledge, we are the only commercial lending institution in our area that offers a true rural residential mortgage financing program and, to date, feel very comfortable with our position in this market. However, due to the fact mentioned above of our inability to transfer these loans to a secondary market should the need or desire arise, we would be unwilling to extend unlimited resources into this area because of the obvious potential risk factors involved. However, with some form of encouragement, I feel our institution as well as other institutions would be willing to concentrate more resources toward this area of need.

Our experience has convinced us that the major problem for borrowers in rural mortgage financing is the inability of the

individual to accumulate the cash or equity to meet the required down payment. I do not think that it is a reflection of the credit worthiness of this group of individuals, but merely a group of individuals within an economic strata which are victims of an economic structure which prohibits savings at their level of income. I do not believe that gifts or grants are the solution to this problem nor do I think that this form of assistance promotes financial responsibility. Some form of down payment substitution, subsidy, or guarantee might encourage community banks and other lending sources to devote more resources toward this area. The possibility of tax free income from loans made in designated areas would probably create a great deal of interest and opportunity from various financial sectors regarding rural residential mortgage lending.

The scale of economics could also be a discouraging factor toward lending in this area. The amount of human resources involved in processing a mortgage loan remains constant regardless of the dollar value of the loan; however, the fee income derived from processing these loans is normally charged on a percentage basis, and thus encourages energies to be concentrated in larger lines. This too could also be addressed in the form of tax credits for the borrower or tax free income to the lender.

The fact that in such a short period of time this type of

loan has consumed such a high percentage of our entire loan portfolio indicates that there is a great need and desire for assistance in the rural mortgage financing area. Any efforts which have the effect of increasing the availability of financing to rural residences would provide a greatly needed service, utilize existing, unused resources, and greatly enhance all segments of our rural society.

Hope this information benefits you in your report. If I can be of further assistance to you, please do not hesitate to contact me at your convenience.

Sincerely,

Doug Gaskins, Chairman

Senator FOWLER. Mr. Gaskins is from the thriving community of Nashville, Georgia in Berrien County.

Senator SANFORD. Do you—it is a very fine policy that you have just laid out there. Is that the policy of rural banks generally?

Mr. GASKINS. Rural banks would be interested in financing homes, but the problem is committing to a long-term commitment with short-term funds.

Senator SANFORD. Yeah.

Mr. GASKINS. We have seen what problem that causes already.

Senator SANFORD. Oh, yes, absolutely. What you need is a secondary market.

Mr. GASKINS. What we need is a secondary market or incentives to allow banks to do that.

Senator SANFORD. What kind of incentives?

Mr. GASKINS. Tax incentives on behalf of—for the borrower and the bank. We have installed a program in our bank, and we consider to have had good success with it. In 2 years we have saw that 10 percent of our loan portfolio has gone into housing in this level that I am talking about, and some of it, not all of it is for building or purchasing, some of it is for things discussed before, which was repairs, additions and that type of thing.

But because we are a commercial bank and we have short-term funds we have had to make it a variable rate loan, which is not as attractive as a 30-year fixed rate mortgage, but that is all that we could do, and our rate is slightly higher, approximately 100 to 150 basis points higher than the conventional market for the same length of time.

On our average loan of $22,000, it equates to the owner of about $23 a month, which is not an unreasonable, you know, extra cost for a market that was not available before, and our program has been very well received, and if we had some other type of incentives and if the individual had some incentives such as tax credit for the discount points and that kind of—maybe in the form of a tax credit for the discount points, or some form of tax-free income from the money from those loans in that category, I think would make it very, very attractive to commercial banks, and not only that, I think it would open up funds from other sources such as individuals.

Any tax incentive seems to be good, or extra monetary incentive, and we are trying to get away from higher costs to these people. That is what they are paying now, but tax-free income would free up a lot of individual dollars. There are a lot of individuals who would finance homes for people because they feel comfortable with taking that as collateral, more so—you know, they are getting a higher rate or a tax-free rate—if they are getting 8, 9 percent, that beats 8, 9 percent for a taxable income from CDs, and that is about all they can do, or the best they can do now with no risk, and there is very little risk in residential financing for this type of person.

And these individuals in our experience are very creditworthy. Even though they are lower income or middle income they realize, or seem to realize that the only thing that they are going to have in life, or the only equity they are going to ever build up is in their home, and they take great pride in it. They take care of their home very well, they do all the work themselves, and that again tends to

help your local economy rather than having it done by an outside contractor, but it is just a market that is simply not—there is no financing available for it because——

Senator FOWLER. Well, let me interrupt, and this may just have gone right by me. Why are housing financing charges higher in rural areas?

Mr. GASKINS. Risk. The appraisers——

Senator FOWLER. Are they actually riskier, or are the financial institutions simply not geared towards smaller loans?

Mr. GASKINS. The smallest they do not want. They have all the market they desire in the urban areas, they have got all they can process——

Senator SANFORD. Now who do you mean by "they"?

Mr. GASKINS. The secondary market.

Senator SANFORD. Yeah.

Mr. GASKINS. Your larger secondary market, they have all they can handle, or all they want to satisfy their market needs in urban areas, and they would much rather have that.

They are just simply either not experienced in rural financing, or maybe I am the one that is not experienced. Maybe they are experienced and they have a reason they do not want it. They are scared of the market, they think it is a higher risk.

Senator SANFORD. Well, their criteria gives a disadvantage to your market. If it is on a dirt road, they will not take it.

Mr. GASKINS. They require——

Senator SANFORD. If they share their well with somebody else, they will not take it.

Mr. GASKINS. Correct. They require much higher loan to market value, you know, like 75 percent versus 90 percent in a metropolitan or incorporated community.

Stricter water and sewer standards—like you said, they cannot share a well, and there are several viable and good financing opportunities there. If a parent and a child build houses on the same property, there is nothing wrong with them sharing a perfectly good well.

Senator SANFORD. Well, what about old Farmer-Mac? He does not help much?

Mr. GASKINS. No, sir, not a lot, and I am not being critical because you understand that we never have accused bankers of being the smartest group of people in the world, but I do not think the bankers have gone to the trouble to understand the program. Some of the Federal programs are complicated and hard to understand.

We are stockholders, our bank is, and we get the information coming down on the Farmer MAC, so we have not understood it well enough to get into it. We wanted to, we had intentions of doing that, but we just do not understand it.

We have put our own program together, and actually feel a little more comfortable with it, and we are servicing our community better we think, plus helping our banks, too.

Senator SANFORD. But now if you do not have a secondary market, how do you replenish your funds?

Mr. GASKINS. Well, that is the problem. We have to limit the funds that we could put in there. We have to watch it and not commit, overcommit funds to it. That is holding back. If there was

some incentive for other banks—we are the only bank that I know of in our area that has such a program where we actually keep these loans in house for 15 to 20 years, we are committed to them. We are not able to sell them, because they do not meet secondary market specifications.

Senator SANFORD. Well, have you talked to the State agency to see if they can help you get a secondary market?

Mr. GASKINS. The Banking and Finance are you talking about?

Senator SANFORD. The Georgia Housing Authority—what is the——

Mr. HUCKABY. Georgia Residential Finance Authority.

Senator SANFORD. Residential Finance.

Mr. GASKINS. No, sir. Some of these—we are familiar with that, and we have sent some of our customers to that who qualify, but some of our customers do not qualify because of income maybe over the income limit.

A problem that this level of income——

Senator SANFORD. I know, but I am not talking about sending them to them, because they have got a broader responsibility as I understand it, they might very well help you and banks like you develop a secondary market. What about that?

Mr. HUCKABY. It is interesting. We just had a staff meeting this week where that concept came up, and one thing you may want to look at, we have been told that West Virginia's Housing Finance Agency is moving in that direction—and we are going to be talking to them—that would provide a secondary market for just the kind of program this gentleman is talking about.

Senator SANFORD. Well, one of the questions that sort of ran through here as a theme was that private housing money in rural areas simply was not available, and we have been worried about how to get banks into it. Mr. Gaskins is in it, and it would seem to me to be an ideal function of the state—it is awfully hard to deal with this kind of thing from the Federal level, it would be an ideal function for the State to help provide or design or find the secondary market, because I daresay you could finance twice as many houses right now if you had more of a rollover of money.

Mr. GASKINS. Yes, sir. And if I might make a comment on having it on the local level versus on the Federal level, and I certainly do not mean this in any derogatory sense, but I think it will work better. Local people can do a better job.

Senator FOWLER. No question about that.

Mr. GASKINS. What we have had to do is modify our system, we had to set our underwriting criteria for our bank similar to the larger secondary market, but we have to adapt. We know those people, they are our people, they are going to live in our community.

We have had to do things such as substitute down payments. In secondary markets there is no substitute, you have it or you do not qualify basically. We can substitute it.

Senator SANFORD. I have been preaching for 40 years that the flexibility that you need comes from the state and the local governments, and we cannot handle this problem if you want to know the truth of it in Washington. We tried, but they have got these standards, the markets grab for this, they become impersonal when it

comes to refinancing, and you have got to be alert to the need for from time to time refinancing, and you have got confidence in your people, but somebody in Boston is not going to have any confidence in them, so I am all for State and local, and we want to know how to promote it and help it.

Mr. HUCKABY. Both of you are correct, because we have begun to hear this same kind of thing. Local banks like the one in Nashville and those small communities do not want to deal with Fannie Mae or Freddie Mac, and so there has got to be some intermediary in there.

Senator SANFORD. Well, you work that out down here and we will take this Georgia plan and wholesale it all over the country.

Senator FOWLER. Hear, hear!

Mr. HUCKABY. All right. I will get right on it.

Senator FOWLER. And for the reasons, Doug, that you said, it has always been a mystery to me, that exactly. People do have pride in their homes; it is their only equity. It is their only savings, and for that reason it seems to me a rural housing loan by any standard would be less risky than any other kind of rural loan, any other kind of loan in rural areas.

Mr. GASKINS. It is. The only problem, we have another added to that, is getting the appraised values up to the loan. They are 10 percent lower in rural areas consistently compared to incorporated—you take the same house, move it into an incorporated area and the appraisal automatically is 10 percent higher.

Senator SANFORD. And that has bearing only because of your secondary market problem.

Mr. Gaskins. Right.

Senator SANFORD. Well, we have got that worked out.

Mr. GASKINS. We will get right on it.

Senator FOWLER. We solved one thing today.

Mr. GASKINS. I am glad some of my board members are here.

Senator FOWLER. Yeah, make sure Hammock has not gone. You are listening to this, are you not, Dan? We have got a good task for you. [Laughter.]

Terry, let me interrupt you, and then we will go——

Senator SANFORD. No, I am through.

Senator FOWLER. Doug, do you know, are there any areas in Georgia where private mortgage financing is simply not available?

Mr. GASKINS. In the price range that we are talking about?

Senator FOWLER. Uh-huh.

Mr. GASKINS. I do not know of any areas that it is. It was not in ours until we put this in, and I have spoken with other community bankers, and with very, very few exceptions such as a farm family builds a home but they finance it on the old farmer plan, they just pay for it by the year, but I am talking—I am not talking specifically about ag people, I am talking about people who work in factories or in other areas of employment but desire to live out in a rural area. That would be—that is primarily our customer for this type of loan.

Senator FOWLER. What about those areas in counties in Georgia, and they as you know are numerous that have no industrial payroll whatsoever, and people may travel to work at that plant for that payroll, they may go 60, 80, 100 miles—I am not talking about

the ones around Atlanta now, I am talking about the ones driving to Albany and——

Mr. GASKINS. Like in Nashville.

Senator FOWLER. Yeah, like in Nashville.

Mr. GASKINS. Nashville that drive to Albany for employment, which is about 70 miles.

Senator FOWLER. Right.

Mr. GASKINS. Well, for those people it is still a problem, and if that financing was available in that community an industry might be willing to locate in there if they could get the people to come move in there. That is a problem that Nashville has with attracting industry right now, because we do not have any housing available—not for their management——

Senator FOWLER. Yeah, for their workers, their work force.

Mr. GASKINS. For their workers. We just do not have the housing available.

We have got probably 40 percent of our workers in one of our plants that come from out of the county.

Senator FOWLER. Doug, thank you very much.

Mr. GASKINS. Thank you.

Senator FOWLER. Next we welcome Mr. Dan Raines from Farm Credit Bank.

STATEMENT OF DAN RAINES, FARMER AND DIRECTOR, FARM CREDIT BANK OF COLUMBIA

Mr. RAINES. Senator Fowler, Senator Sanford.

We appreciate you taking the time out of your busy schedule to come down to Georgia to hear some of the problems we have here.

Before I begin, Senators, I would like to recognize a colleague of mine, Bob Strayhorn from Chapel Hill, North Carolina. I believe you know him, Senator Sanford.

Senator SANFORD. Absolutely.

Mr. RAINES. He made the trip down as an expression of his interest in this rural housing issue. Bob is a newly elected director on the Farm Credit Bank in Columbia.

Senator SANFORD. Have him stand up.

Mr. RAINES. Bob, stand up if you would.

Senator SANFORD. Let us show off North Carolina.

Senator FOWLER. Also I understand State Representative Stanford Bishop arrived. Is he here?

There he is. Welcome.

Mr. RAINES. Thank you, Senator.

Senator FOWLER. Yes, sir.

Mr. RAINES. Gentleman, I am not an employee of Farm Credit or any banking institution, I am a director, I am a farmer, I grow fresh market vegetables and beef cattle over in Asburn, Georgia.

There are a couple of main points—Senator Fowler, I believe you said this was already in the record, my testimony, so I am not going back, I am going to follow basically the contents.

The Farm Credit system does loan rural housing money. We have got two basic limitations. One of them—and they both are imposed by law. One of them is a 15 percent limitation of our loan

portfolio, we are limited to 15 percent of that portfolio for rural housing.

Right now we are just under 14 percent in this district, that is the Columbia District of Georgia, Florida, North and South Carolina.

North Carolina as a stand-alone State—now, I did not realize this until Mr. Strayhorn showed it to me while ago—they are over this limit, Georgia is a little bit under, but combined we are within that 15 percent limit.

If Congress and the ag committees were to see fit to increase this limit, it would preclude some of that problem of approaching this limit.

The other limitation the Farm Credit System has in rural housing is a population limitation on the metropolitan areas. We cannot loan money in an area that has over 2,500 people. Asburn, Georgia, Farm Credit cannot make a rural home loan in Asburn, Georgia. It can make one in Turner County. Asburn has 5,000 people.

It can make one in Sycamore, Georgia. But it states all it takes is one person in the population census and we are knocked out.

If these limitations were raised, it would certainly enhance the Farm Credit System's ability to make these rural home loans.

Senator FOWLER. Of course, all that would be arbitrary. What would you set it at, 4,000, 5,000?

Mr. RAINES. On the population, 15 to 20,000.

Senator SANFORD. When was that 2,500 put in?

Mr. RAINES. As long as I can remember. Tom Emerson, could you help us?

Mr. EMERSON. 1971.

Senator SANFORD. What was it before that?

Mr. EMERSON. It was a newly created authority in 1971. In other words, we could not make this type loan prior to that time.

Senator SANFORD. You could not make a home loan prior to that time?

Mr. EMERSON. Right.

Senator SANFORD. So when it was initially put in in 1971, 2,500 was thought to be a small town.

Mr. EMERSON. Yes.

Senator SANFORD. Where is your other 85 percent if 15 percent is in——

Mr. RAINES. 85 percent is in your farm, your ag loans, your land loans, your operating loans, your intermediate term loans, equipment loans—general farming loans, Senator.

Senator SANFORD. Well, now, when you increase 15 percent you are reducing the 85 percent. What will that do to your other programs?

Mr. RAINES. We are not government funded.

Senator SANFORD. I understand.

Mr. RAINES. We go to the open market and get our funds, and we do not have any problem securing funds. We go to the bond market to get our funds.

Senator SANFORD. Yes.

Mr. RAINES. Therefore, we do not have any problem securing funds. All we have to do is meet competition on the interest rates

in our borrowing. We borrow on the open market, so it would not affect—we would still have the capability to loan to our farmers.

Senator SANFORD. And that would not in any way affect that.

Mr. RAINES. That would not affect our farm loans at all. Possibly something——

Senator SANFORD. Because what you are saying in effect is that if you have got good loans you can get the money to do them.

Mr. RAINES. Yes, sir.

Senator SANFORD. But this artificial thing in here holds you back.

Mr. RAINES. It is an artificial limitation is what it is that was imposed by the Congress.

Senator SANFORD. Why was it put in there do you suppose?

Mr. EMERSON. Senator, I think at the time the thoughts were that it was an agricultural organization, it was founded in 1916 as a farm organization, it was an entirely new venture for Farm Credit, and they needed some control to see that it was conservatively managed before they jumped overboard into a new venture from a risk perspective.

Senator SANFORD. What is the foreclosure experience?

Mr. RAINES. We have got good experience. Very, very small foreclosure.

Senator SANFORD. Do you have the capacity to handle refinancing and restructuring of debt?

Mr. RAINES. Yes, sir.

Senator SANFORD. Do you?

Mr. RAINES. In fact, we are mandated by law to. The Farm Credit Act of 1987 mandates us to work with borrowers, distressed borrowers.

We are mandated to work on a least-cost basis to the system, but to try to work to the benefit of that borrower if there is any way he can restructure and work it out.

Senator SANFORD. And what should it be if not 15 percent?

Mr. RAINES. 20, 25 percent.

Senator FOWLER. Do you even need a cap?

Mr. RAINES. The competition would probably like to see a cap, Senator.

Senator SANFORD. Who is competition?

Mr. RAINES. Anybody that loans money for housing. That is not intended to be a tart answer, Senator, but I would——

Senator SANFORD. Well, I really meant what—you know, everybody does not want this kind of loan.

Mr. RAINES. A rural home loan?

Senator SANFORD. Uh-huh.

Mr. RAINES. Yes, sir.

Senator SANFORD. And who in particular, local S&L's? Who is your competition for this?

Senator FOWLER. Who is your competition, or do you think would be the competition?

Mr. RAINES. If this Aggie-Mac or Farmer-Mac ever gets off the ground, the secondary market, that should be some competition in it, as well as farm real estate loans. That should be some competition, but it is not off the ground yet. As I see it I am not seeing any competition in it yet. Max, do you want to add——

Senator SANFORD. Well, what Senator Fowler asked was a good political question, who can we expect to come after us if we want to take this cap off? [Laughter.]

Senator FOWLER. That is called putting the hay down where the goats can get it.

Mr. RAINES. Yes, it sure is, Senator. [Laughter.]

Probably S&L's. I guess S&L's, and commercial banks.

Senator SANFORD. They are very meek these days. [Laughter.]

Mr. RAINES. That would be the primary housing lenders I would think.

Senator SANFORD. Yeah. Mr. Gaskins would not object.

Mr. GASKINS. No, sir, because we would rather have our money in short-term. We would rather handle the construction financing.

Senator FOWLER. Right.

Mr. GASKINS. We would rather loan money to the hardware company to buy inventory to sell these people.

Senator SANFORD. And then you have got Farm Credit's number on your card there once you—you will generate business for them.

Mr. GASKINS. We will send it to them.

Senator SANFORD. We will take a look at that.

Senator FOWLER. Yes.

Mr. RAINES. Senator, if I may——

Senator FOWLER. Especially since both those limits have been there since 1971.

Mr. RAINES. Right.

Senator SANFORD. Is there any justification for the population limit? It keeps you honest, does it not?

Mr. RAINES. I think as Tom Emerson alluded to just now, it was something right out of the gate in the 1971 Act, it was something new to everyone, the Congress as well as the Farm Credit system, and I think they wanted to get off the ground and see where we were going with it.

Senator SANFORD. Well, we will set the limit at the population of Laurinburg, North Carolina. How about that?

Senator FOWLER. What is that?

Senator SANFORD. I do not know, but it was 2,500 in 1971. It is probably about 15,000 now. [Laughter.]

Senator FOWLER. Well, we will look at that, but I can see some arguments out on those—from the last panel just on the interest—what do we call it—you know, for the nonprofits, the expertise and everything. You bring in towns of 20,000 you are going to have a lot more, probably more resources and creating that competition with the money for smaller communities under 2,500 and under 5,000.

Mr. GASKINS. We do not have any problem in the incorporated areas, they are a good marketplace.

Senator SANFORD. Now, you——

Senator FOWLER. Capacity. They have more capacity.

Senator SANFORD. You can lend money to a rural area right outside of an incorporated town of 10,000.

Mr. RAINES. Yes, sir.

Senator FOWLER. Well, I can see—but what does the 2,500 do to you? Do you think that cuts back the market, or what?

Mr. RAINES. It will restrict a lot of these rural towns, and the example I just gave was Asburn, Georgia. It has a population of 4,700, 4,800 people, just under 5,000. We do not have a—we have got an S&L there, but they are not active as far as lending in the community.

The commercial banks and out of town S&L's—Savannah, Georgia, or Albany, Georgia, or Columbus, Georgia, some of those would be where they would have to go for long-term funds.

Senator SANFORD. Well, you do not want to get into full time competition with them doing housing everywhere, you want to keep the farm-related rural characteristic.

Mr. RAINES. Our primary loan portfolio should be ag-related loans, farmer loans.

Senator SANFORD. Yeah.

Mr. RAINES. But it does diversify Farm Credit's risk exposure by having some rural home loans in their portfolio.

Senator FOWLER. What do you reckon would be the Federal budget cost of expending Farm Credit housing lending authority?

Mr. RAINES. Federal budget cost—I would not think any, Senator, because we go to the open money market for our funds on the New York bond market there.

Now, there has been some infusion of capital in some of the districts, the Spokane District, but not in the Columbia District. In fact, we were fortunate enough that we came through this crisis with some surplus left over. In fact, we were forced to send some money outside of our district, $112 million to another district, but on the Federal budget this would be an off-budget thing because we do not receive any Federal funds at all.

Our regulator, the FCA, which is a Federal agency, we pay for that, our farmer borrowers in the district through their interest rates pay for our Federal regulator.

We have also got an insurance fund set up under the 1987 Act that we contribute to, and I have in my testimony the exact amount, I believe it is $110 million a year that the farmers in the nation contribute to this insurance fund. The purpose of the insurance fund is to protect the investors, the bond investors, the taxpayers and the system.

Senator SANFORD. Well, what potential exposure do the taxpayers have if you went broke?

Mr. RAINES. Max, do you want to help him out?

Mr. LOVE. I do not think any, because the government does not underwrite this program other than in people's minds.

Senator SANFORD. Why did we provide infusion of capital from Federal funds for two or three banks that were shaky?

Mr. LOVE. You did that, Senator, to really protect the continuation of the Farm Credit System as a viable institution. The way we are structured, we are all jointly and severally liable for our bonds.

Senator SANFORD. Yeah. You are liable for Seattle—Columbia is liable for Seattle?

Mr. LOVE. That is correct. We put out 101 million, and we were bleeding, and we found that you cannot take a transfusion from a bull to a 100-pound calf and survive, and you have helped us out on that, but that is the—overall the total exposure to the government

would be a total calamity, and then by your will to protect the investor in a government-sponsored enterprise you might on your volition pass legislation to help shore some things up like you did in 1987, but there is no legal obligation of the government behind Farm Credit securities.

Senator SANFORD. And there is no mentality that says "We can be a little lax in our business practices because the government is going to bail us out."

Mr. LOVE. Absolutely right.

Senator SANFORD. See, that is what we have got to—I think the record for 70 years has been a pretty good business record.

Mr. LOVE. When you ever come in, Mr. Emerson and I will not be around.

Senator SANFORD. You mean it is going to be so far off in the future?

You mean you are going to be in Brazil, or——[Laughter.]

Mr. LOVE. No.

A VOICE. They will be barred, Senator.

Mr. LOVE. No, our board replaced that when they lost it.

Mr. RAINES. Senator, we have got one more thing—and I will make it brief and conclude because I know we are on a time schedule here—that has kind of come out of the woodwork in recent weeks, and this is the threat brought on by the Treasury and Office of Management and Budget's proposal to impose radical new restrictions on the Farm Credit System and other government-sponsored enterprises known as the GSEs, and it is through this budget summit discussion, and through this they could literally take control of the Farm Credit System and bypass the committees of Congress that are responsible for our Farm Credit System in dealing with us. They can totally bypass these agencies in Congress with this driving force.

Senator SANFORD. You do not have that in your testimony.

Mr. RAINES. No, sir, I do not. This is just another to it.

Senator SANFORD. Well, now, see, we got——

Senator FOWLER. We have got a letter to the summit.

Senator SANFORD. We have got the summit right here, you know.

Mr. RAINES. Yes, sir, I know it.

Senator SANFORD. He is the number one mole we have got over there in the summit, and I recognize——

Senator FOWLER. That is probably the right animal. I do not know whether I am a mole or a 'possum. [Laughter.]

Senator SANFORD. But my point is that we had better define this a little bit better now from your point of view, because I do not think anybody was intending to do what you are talking about.

Mr. RAINES. Well, if Congress allows this proposal to move forward as part of the summit deal, it will—these proposed restrictions on the GSEs would have absolutely no impact on reducing the Federal deficit.

Senator FOWLER. What kind of restrictions are they? I have not seen them yet.

Mr. RAINES. It is going to give——

Senator FOWLER. To your understanding this is going to be proposed by the administration?

Mr. RAINES. Yes, sir.

Senator FOWLER. Go ahead.

Mr. RAINES. It will allow Treasury as I understand it the right to revoke Federal agency status for various institutions, it can have catastrophic implications on the cost and availability of credit to farmers, ranchers and cooperatives, it will give Treasury as I see it the power to limit the lending activities, to set the credit standards, to fire and/or fine duly elected directors and terminate the management the directors have chosen to operate these Farm Credit banks and associations.

Senator FOWLER. Send me a letter on that, will you?

Mr. RAINES. I will enter this whole thing to you, Senator. I sure will. But I just wanted to touch in this subject.

Senator SANFORD. Well, I knew you did not have that in your other testimony, and I thought we certainly ought to have that like today.

Senator FOWLER. Right.

Mr. RAINES. I will give you a copy of it before we leave.

Mr. LOVE. We have added that. It is in the material we turned over to Mr. Humphreys.

Senator FOWLER. Let me ask you something that came to mind.

Mr. RAINES. Yes, sir.

Senator FOWLER. Do housing loans in rural areas protect, help protect in some way against agricultural recessions, or are the—is there any real relation to the ups and downs and fortunes of agriculture and the rural housing markets? Are they proportionately related in any way?

Mr. RAINES. I would say that it does not help protect the ag economy, but as a lender—and we are basically a single-purpose lender—it does help protect the organization by diversifying the loan portfolio.

That rural home loan that the system makes out in the country does not necessarily have to be a farmer, it can be an attorney that practices law in town, or a medical doctor, it could be a farm laborer, or it could be a farmer. There is no restriction on occupation to that individual. The restrictions are the location, the population.

[The prepared statement of Mr. Raines follows:]

STATEMENT BY DAN RAINES
FARMER AND DIRECTOR OF THE FARM CREDIT BANK
OF COLUMBIA ON RURAL HOUSING ISSUES
BEFORE SENATORS WYCHE FOWLER (D-GA)
AND TERRY SANFORD (D-NC), MEMBERS
OF THE SENATE BUDGET COMMITTEE

JULY 28, 1990 IN RICHLAND, GEORGIA

Senator Fowler and Senator Sanford, my name is Dan Raines and I'm a farmer from Georgia. I'm here today to speak to you as a farmer, borrower and director of the Farm Credit System to give you my views on several important rural housing issues. I'd like to thank you both for taking time out of your busy schedules in Washington to come down to Georgia to listen to the views of local farmers on these important issues, and to thank Wyche Fowler for his involvement and continued support for the farmers of Georgia. I would like to acknowledge the presence of Bob Strayhorn who is a farmer from Chapel Hill, North Carolina. He has been a farmer all of his life and maintains a hog and beef cattle operation. He has been a PCA and an FLBA director; and he also is a new member of The Farm Credit Bank of Columbia

Board of Directors and is available to answer any questions you'd like to put to him.

I've been a farmer all my life and I grow fresh market vegetables and raise beef cattle on my farm in Ashburn. I'm a borrower from Farm Credit and I've served as a PCA director for many years. Recently, I was elected to the Board of Directors of The Farm Credit Bank of Columbia. As you know, our district encompasses North Carolina, South Carolina, Georgia and Florida.

I'm speaking to you today on behalf of 18,000 cooperative members in Georgia who borrow over $950 million from their local Farm Credit associations. Together these Federal Land Bank and Production Credit Associations provide almost 58 percent of the financing used by farmers in financing farm real estate and as working capital throughout the state of Georgia.

The 1980's, especially the early to mid-part of the decade were some of the worst years for farmers in the last fifty years. Farmers faced crop failures, droughts and falling land

values, among other things. And now, just as agriculture seemed to be rebounding, farmers in the Carolinas had to endure the devastation of Hurricane Hugo and farmers in many parts of the Southeast are now facing drought conditions again. Because of all of this, I have no doubt there is still a great need for reasonable farm credit to help all farmers, but especially the family farmer.

There are several issues I'd like to mention relative to rural development legislation. First, there is now a limit on our ability to make rural home loans. Loans to purchase or finance home improvements cannot exceed 15 percent of our total Land Bank Association and Production Credit Association portfolio. In this District, we have often in the past reached this limit and thus had to stop making rural home loans. Presently, we find ourselves approaching a situation where as the demand for agricultural credit shrinks and our total portfolio decreases, the 15 percent limit becomes more and more

restrictive on our ability to make loans in rural communities. With nearly 13 percent of our portfolio in rural home loans, we won't be able to meet any increased demand for rural housing if the overall agricultural credit demand continues as projected. This is a problem because in some isolated rural areas there simply aren't many lenders willing to make this type of loan. We are concerned that many rural people are being denied a good access to credit because of the limitations imposed on our lending requirements. Secondly, we in Farm Credit cannot make a rural home loan in areas with more than 2,500 people. This population limitation just is not reasonable anymore, and it does not coincide with "rural" designations in other provisions of the Agricultural Credit Act of 1987. Increasing the population limitation for Farm Credit rural residential loans to 15-20,000 or more people is a realistic figure and allows the members of small communities to have access to reasonable credit. Farm Credit has the capacity to serve our state's rural

dwellers in providing housing loans which do not cost the taxpayer.

Next, I'd like to mention a concern relative to the current direction of the Farmer's Home Administration (FmHA) role in the guarantee loan programs and direct lending programs. FmHA can play a vital role in guaranteeing or providing credit to financially distressed farmers whose needs cannot be met by private sector sources. Emphasis, however, should be focused on only those farmers who have a reasonable prospect for success. As a guarantor, FmHA provides farmers of marginal financial means an opportunity to obtain credit through the private sector while farmers with little or no prospect for profitability should receive counseling as to their true financial situation. Thus, I think it is most important that the FmHA focus on its guarantee programs and make only a minimal commitment to direct lending activities. Finally, efforts should be made to ensure that FmHA is as flexible as possible. In its guarantee program

and in its loan restructuring activities and authorities, such flexibility is often necessary to assist farmers who are financially distressed to formulate a practical workout plan with other lenders and creditors. It would also help if the entire guarantee process could be streamlined to reduce paperwork and increase efficiency, thereby assisting lenders in more quickly and fully meeting the credit needs of farmers while at the same time reducing administrative costs.

We believe that in the future our associations will make even greater use of FmHA guarantee programs than they do at present--although great progress has been made in the last year. As of March 31, 1990, Farm Credit in Georgia has 89 FmHA guaranteed loans for a total of $6,841 million compared to 48 loans for $3.932 million as of the same time in 1989. As our personnel develop even closer working relationships with FmHA county and state staff, processing procedures should flow better and cooperation should continue to get better and better.

Attached to these comments is a fact sheet on financing rural home loans prepared by The Farm Credit Council. I hope this information will be of assistance to you and your staffs.

I'd like to close by thanking Senator Fowler and Senator Sanford for being here today and allowing me to speak out on such vital issues concerning farmers and rural America. I would be happy to answer any question you might have at this time.

Senator, I would like to conclude my testimony by mentioning what I believe is a little-known, but extremely serious threat to Rural America. This threat exists because of a Treasury/Office of Management and Budget (OMB) proposal to impose radical, new restrictions on the Farm Credit System and other Government-Sponsored Enterprises, known as GSEs.

This proposal is being considered as a part of the "budget summit" discussions. We are very concerned that once the deficit reduction package is formally agreed upon by the summiteers, any changes or deletions will be almost impossible to make.

Unless stopped, the Department of Treasury will become the "super-regulator" and virtually the operator of the banks and associations of the Farm Credit System. Treasury will have the power to limit lending activities, set credit standards, fire and/or fine duly elected directors and terminate the management that directors have chosen to operate their banks and associations.

Ultimately, Treasury could revoke federal "agency status" for the Farm Credit System, an action with catastrophic implications to the cost and availability of credit to farmers, ranchers and cooperatives.

Treasury has said that its objective is to protect taxpayers from future risks. As I'm sure you know, the Farm Credit System is now required to annually spend $40 million to fund the independent Federal regulator of the System, The Farm Credit Administration, and $70 million a year towards capitalizing the new Farm Credit System Insurance Fund to protect taxpayers and investors. That's $110 million a year of protection paid for by the nation's farmers and cooperatives--and that's enough!

Treasury's plan represents an unprecedented attack on the Farm Credit System's ability to fulfill the mandate which Congress established for it nearly 75 years ago. This proposal threatens the System's independence and its very survival! For farmers, ranchers and cooperatives who depend on their financing through the banks and associations of the Farm Credit System, it could cause sharply higher interest rates or a catastrophic loss of credit.

It is absolutely wrong for Congress to allow this proposal to move forward as part of the "budget summit" bill! First, these proposed restrictions on GSEs would have absolutely no impact whatsoever on reducing the Federal deficit. And second, the relevant authorizing committees in Congress with jurisdiction over the Farm Credit System--the House and Senate Agriculture Committees--would have absolutely no opportunity to review or study the impact of these restrictions. Senator Fowler, we recognize your key position on the Senate Agriculture Committee and your role in the budget summit workgroup. We appreciate your strong support for the Farm Credit System, but we are very concerned that there are other members of that group who do not share your deep commitment and appreciation of the value of the Farm Credit System to agriculture. There are very real risks to America's farmers and ranchers if this ill-advised plan is rammed through Congress as part of any budget summit agreement.

We hope that by bringing this to your attention in this forum, you will help preserve and protect the Farm Credit System for the nation's farmers, ranchers and cooperatives!

Mr. Chairman, this concludes my statement. I will be pleased to answer any questions.

FACT SHEET

FINANCING RURAL HOME LOANS

BACKGROUND

Section 1.9 of the Farm Credit Act, as amended, provides that credit and related financial services may be made available to persons who are stockholders or members of the bank or associations in a Farm Credit District. These services include the opportunity for customers to finance their rural homes.

Section 1.11 Subpart (b) specifically provides with regard to financing rural housing that:

- Rural housing that is financed shall be for single-family, moderate-priced dwellings (and their appurtenances) not inconsistent with the general quality and standards of housing existing in, or planned or recommended for, the rural area where it is located,
- A Farm Credit Bank may not at any one time have loans for rural housing outstanding in amounts exceeding 15 percent of its total loan portfolio, and
- such financing be in rural areas or cities having a population not more than 2,500 people.

Creation of Agricultural Mortgage Secondary Market

The passage of the Agricultural Credit Act of 1987 established the first secondary market specifically designed for agricultural loans. The general provisions of this section of the '87 legislation provides that to qualify for inclusion as a loan which may be pooled and sold into the secondary market, a rural home loan must be:

- a principal residence that is single-family, moderate-priced residential dwelling located in a rural area and in a community not larger than 2,500 people or having a purchase price not more than $100,000 (as adjusted for inflation).

Beyond this provision of the '87 Act, the secondary market will require diversified pools to reduce the risks incurred in providing guarantees. The pools must consist of loans which are:

- secured by agricultural real estate that is widely distributed geographically,
- vary widely in terms of amounts of principal, and
- be comprised of at least 50 loans.

The '87 Act further prohibits including within a pool, any loan which has a principal amount which exceeds 3.5 percent of the

aggregate amount of principal of all loans in such a pool or two or more loans to related borrowers.

Farm Credit Response to Rural Housing Demand

The banks and associations of the Farm Credit System have moved to meet the need for the financing of rural homes by providing flexible terms and conditions. Many institutions offer five to 30 year terms, convertibility from an adjustable rate to a fixed rate program, no prepayment penalty, financing for up to 85 percent of the value of the home, timely review of applications and personalized service.

Potential Demand for the Secondary Market

At present, there are many unknowns with regard to the secondary market and its applicability to rural housing. Initially, there is the question of interest on behalf of System institutions. Further, there is no base of information as to how many loans might be available for securitization from the System, nor the level of investor interest.

Senator FOWLER. Last, but certainly not least, Mr. Bob Couey, Overview Housing Assistance Corporation.

Glad to see you, my old friend.

STATEMENT OF BOB COUEY, PRESIDENT, OVERVIEW HOUSING ASSISTANCE CORPORATION

Mr. COUEY. Thank you, Senator Fowler, Senator Sanford.

You of course have my written testimony, my written statement, and I think I probably would just like to comment on——

Senator FOWLER. Tell them that this is a nonprofit, tell them who you are, Bob.

Mr. COUEY. Well, I am the president of Overview Housing Assistance Corporation. We are the most rural nonprofit housing corporation in the State of Georgia that I know of. We are one of the nonprofit corporations that was formed with the assistance, the very able assistance of Georgia Residential Finance Authority.

We have been in operation now since February of 1989.

Senator FOWLER. Hancock County.

Mr. COUEY. Hancock County is one of the counties, and I was very interested in some of the previous comments concerning Hancock County. I am not an expert on Hancock County, but I certainly have some keen insight into the very unique problems that exist in Hancock County.

We have as a matter of fact, and I certainly do not want to contradict my friends from the Farmers Home Administration, and we have not operated or asked them for 502 or 504 grants. We have as a matter of fact operated the housing preservation grant since 1986 in that county.

As a matter of fact I thought I might just gently touch on that housing preservation grant thing in light of their experience in spending all their money and grant funds on the 504 program, but retaining some under the loan program.

Yes, I agree with that, and the reason, the very reason is because the elderly people really do not want—they are not prone to spend or obligate their house, it is their house and they want to keep it, but they are extremely interested in the housing preservation grant, and we utilized our funds—I think it is 533—533, we utilized all of our funds for elderly housing under 533. We ran the program for 3 years.

Senator FOWLER. I forget. What is the difference between the housing preservation grant and the housing rehabilitation grant?

Mr. COUEY. Housing preservation is a rehabilitation area. It is an area where you can go in and rehabilitate houses and bring them up. It is another rehab program similar to 504. The difference is that the rehab program, the 533 program requires a match by the local entity, and we had some real problems in coming up, in getting that match. We used community services block grant funds, and I know that both of you—I have talked to you about that before and you know how important I think the CSBG program is.

Senator FOWLER. Right.

Mr. COUEY. Those type things we have been doing since 1986.

Now, the Overview Housing Assistance Corporation starting in last year took that grant, and in addition to that we have been purchasing some Farmers Home and HUD houses.

Our problem is as Senator Sanford alluded to I think they want a little too much money for it. I can show you some property that just really does not appraise for the amount of money that is outstanding on that loan, and I want to make this clear that this is HUD property that I am speaking of now, the HUD property, a double wide modular home on a lot. I have tried to buy that property, they want $48,000 for it, and I get a 10 percent discount, for a double wide modular home on less than an acre of land. Their mortgage on that property was $59,000. There is a balance of 48,000, and the owner never moved into it, it has never been lived in.

I cannot—as a nonprofit I would like to have the property if I can get it at a decent price. I cannot lose money on it, I have no money to lose. A nonprofit is not in a profit mode as you well know, but we need to be able to turn property and generate resources so that I can pay my people's salaries, so that I can pay the expenses for the office, and so I can pay the appraiser's price to go out an appraise that property, make sure that I am not getting something that is overpriced.

I am perfectly willing to buy any HUD and Farmers Home property in a seven-county area where we feel that we can get that property and rehab it and sell it, or provide rental property for low income people. I would love to do it.

As a matter of fact, we are trying to buy every property you have down in Johnson County.

We have as a matter of fact bought one of their properties, one Farmers Home property in Putnam County. We were able to buy that, rehab it, and we sold it within a week after we had it on the market, had it listed.

We are—I think it is that local capacity building that Mr. Loza spoke about, we have got experience in it, and we have a feel for the communities, and we have got the commitment, and that is the third ingredient I think in the solution to the housing, rural housing problem in the State, first being off course the public sector with its resources and its——

Senator SANFORD. How many empty houses are in your counties that HUD or Farmers Home have?

Mr. COUEY. I think there are five in Johnson County at the present time, three in Hancock County Farmers Home, in Baldwin County alone there are four HUD properties right now, and they are sprinkled two and three——

Senator FOWLER. These are single family?

Mr. COUEY. Single family, yes, sir.

Senator SANFORD. Do you deal with anything other than single-family?

Mr. COUEY. At this point we are not. We fully anticipate doing a 515 project in Wilkinson County, Georgia, in Irwinton.

Senator SANFORD. But all the property from your point of view is overpriced?

Mr. COUEY. Most of it is. Most of it is, yes, sir. I am sorry, but if—and we can get 10 percent now, they will give a 10 percent dis-

count to a nonprofit after 30 days. After 90 days I think it goes up to 20 percent, but in——

Senator SANFORD. So you are a patient man.

Mr. COUEY. Well, I do not want to be patient, though, because in some instances those—Farmers Home in particular will come in and rehab the house, and then I have got to wait for 90 days to take a chance on whether or not anyone will buy that house, and in many cases during that 90-day period the house will be vandalized again.

The longer the Federal Government holds onto property, vacant property, the more it will cost me and the longer it will take me to get someone into that vacant property.

I know that we can do it, and we are again not profit motivated, we simply want to provide—we have the commitment to provide housing to the rural low and moderate income people.

Senator SANFORD. Suppose you paid X dollars for that house, and did what you were going to do to it, and then could not sell it for what you had in it.

Mr. COUEY. Then I would put it under GRFA's rural rental assistance program, and I would get a Section 8 contract and rent that program to that person, very possibly and put that under a 203K program now which is a new program of home ownership, right to buy home ownership where I would put that person in there for a period of up to 5 years and let the rent come in. I might put a portion of that rent aside, and at the end of 5 years under the 203K program under HUD I might be able to sell that house to that family that is living there. That gives that family the hope of having their own home, an affordable home that they can live in one day.

Mr. GASKINS. Senator, if I could come in on something that was just made, a comment that was just made, and maybe defend the FHA a little bit, you were talking about the houses would be repaired and then vandalized.

In our community the experience as a local banker that I have seen is that these houses were vandalized before the people moved out of them. They were torn all to pieces when the people moved out.

And that might be hurting the value of the property some, is when they made the loan it was a legitimate loan, a $40,000 home on a nice little lot, and it is a nice family home, 2- or 3-bedroom home, but when the people moved out of it the house was torn all to pieces and, no, it was not worth but $20 or $25,000, so I think in their FHA expense that it is just a problem within the type of financing that they do.

Mr. HARRIS. Senator, I have to comment on that if I may.

This is one of those areas we have very little flexibility on, as Bob knows. We are bound by our procedures and regulations to sell that property at the market appraised value, so we currently do not have the flexibility in order to do much negotiation on selling a property.

Senator SANFORD. And it would be hard really to take an agency that large and provide much more flexibility if you want to guard against some of the things that have plagued HUD, and now the bail-outs of S&Ls where you have favoritism involved in the thing,

but with a shielding agency like this could there be more flexibility, shielding in the sense that you are not going to have any shenanigans of giving anybody a financial advantage.

Mr. HARRIS. I could see some potential for that, Senator, but currently regulations prohibit us from doing that.

Senator SANFORD. Well, I always like to look at regulations and see if we can improve them.

Mr. HARRIS. That is why I wanted to point that out, that is one area where we do not have that flexibility right now.

Senator SANFORD. Bob, work on that and we will see whether we can do it. I am giving you a little homework.

Mr. COUEY. I accept it, sir.

I certainly again have no intention of criticizing Farmers Home Administration, they work very closely with us, and as a matter of fact we continuously refer people to the county agents, county supervisors, and they have been granted loans, 504 loans and 502. Sometimes we fill out the application and assist the county supervisor that way. There is the potential for working closely with Farmers Home is very—we enjoy it, and we have no problems whatsoever.

We particularly like Farmers Home, and we particularly of course are indebted to them and to GRFA, Georgia Residential Finance Authority, for assisting us. We really think that nonprofits can play an important part in solving the lack of affordable housing in the State.

[The prepared statement of Mr. Couey follows:]

SENATE BUDGET COMMITTEE

FIELD HEARING TESTIMONY

PRESENTED BY

BOB COUEY, PRESIDENT
OVERVIEW HOUSING ASSISTANCE CORPORATION

JULY 28, 1990

* * * * * * * * *

I am Bob Couey, the Executive Director of Overview, Inc., a Community Action Agency; and I also serve as President of the Overview Housing Assistance Corporation. It is in this capacity that I appear before you this morning.

I want to express to you my deep appreciation for the opportunity to offer my comments on rural housing issues, and in particular, to discuss non-profit housing corporations and the potential for those organizations to help meet rural housing needs.

The Overview Housing Assistance Corporation a nonprofit housing corporation, was created in 1989 primarily as a result of our parent organization, Overview, Inc's, perception that housing problems in rural areas are as critical as any human service problems that we face. Community action agencies such as Overview, Inc. historically have been charged with meeting a vast array of the needs of disadvantaged people. We accept that responsibility proudly because that is our mission. But until we confront the ever-growing problem of a lack of decent and affordable housing for our people, our mission will not be accomplished. The idea that housing problems

are more severe and debilitating in urban areas is a gross misperception. Rural Georgia suffers seriously and the suffering is increased because the economic opportunities just do not exist as they do in metropolitan areas. Consequently, too many people are mired in a downward spiral of hopelessness.

We serve an area consisting of 7 counties in central and east central Georgia. Included in this area are some of the most distressed communities in this state, communities characterized by abject poverty, no public transportation, high unemployment, inadequate health care, high infant mortality rates, inordinate substance abuse, teenage pregnancy - I could go on in terms of identifying the categories where our people are underserved or otherwise cut-off from the mainstream of society. And I can relate the majority of these problems to inadequate and unaffordable housing. When you are paying the majority of your income for rent or a mortgage and your roof leaks, your plumbing is faulty, you're squeezed into too little space, your furnace doesn't work, your wiring is faulty - under these conditions, home is not such a happy place or a healthy place or a comfortable place. But if you can lessen the financial burden of rent payments and repair that leaky roof and have toilets and showers that function normally and be warm in winter and cool in summertime, then home becomes a much more pleasant place. But we don't despair and we retain our optimism and one of the primary reasons is because occasions such as this hearing lets us know that there are people who are genuinely concerned.

Our most immediate challenge as a nonprofit housing development organization is to access the kinds of resources that will enable us to assist low income people in securing decent, safe and sanitary housing that is affordable. This challenge has been particularly difficult because of the drastic changes in the Federal government's role in housing. Although the Overview Housing Assistance Corporation has been in existence for only a brief period, the community action agency, Overview, Inc. had begun to be bombarded with requests for housing assistance. Our initial response to requests for housing assistance was to pursue Farmer's Home Administration's Housing Preservation Grant Program funds in October, 1986. Ours was the first community action agency in Georgia to apply for these funds and received grants for three successive years resulting in the rehabilitation of 96 homes. The requests for assistance from needy families in our area, however, continued to increase. By the end of 1988, it became obvious to us that an organization devoted specifically to housing was needed. As a result, Overview Housing Assistance Corporation was formed as a nonprofit housing development organization.

The Georgia Residential Finance Authority was instrumental in the formation of our housing nonprofit. Not only was technical assistance provided but start-up funds for our day-to-day operation were also provided in the form of a three year grant. And GRFA and FmHA continue to be the funding sources we look to in support of our housing assistance initiatives. Some examples of our successful

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efforts with these agencies as a new nonprofit housing corporation include:

-The securing of a FmHA grant for Housing Preservation that we had formally operated under the community action agency. This grant allows us to rehabilitate twelve residences located throughout our 7-county service area and bring them up to standard housing codes.

-The acquisition and rehabilitation of eight single family homes located in three of our service counties with assistance from GRFA in both the acquisition and rehabilitation as well as the assignment of GRFA's Section 8 Project Based Rent Assistance to three of the houses in Hancock and Johnson counties. In addition, GRFA has set-aside mortgage financing at a very attractive interest rate (8 1/2%) for the purchase of one of these houses in Putnam county by a family qualifying as a first-time homebuyer.

-The negotiation of the purchase of foreclosed houses located throughout our 7-county service area from FmHA for the purpose of rehabilitation and resale to low income families in these areas.

-The negotiation of a contract to manage a 49-unit FmHA 515 elderly apartment housing project to be constructed in Sparta (Hancock County).

-The development of an application to FmHA for a 515 elderly apartment project for Wilkinson county.

We do look to other funding sources, however, and the Community Services Block Grant Program assists us in our routine administration of housing programs. The CSBG Program is and has been extremely important to us and I respectfully urge the Committee to help ensure continuation of this Program. The Department of Energy provides us with assistance in the weatherization of residential structures. And we have been able to attract local government funds to provide the matching component for the FmHA Housing Preservation Grant Program. We are working with HUD on the purchase of a number of single family foreclosed houses in our area We are also pursuing funding under HUD's Nehemiah Housing Opportunity Grant Program which if we are successful in receiving this grant will allow our nonprofit to develop a 50-house single-family subdivision in Hancock County. This is one of three counties in our service area where new state prison facilities are currently being built. Obviously, there will be a need and in fact already is a tremendous need in these counties for adequate, yet affordable housing from which to choose. We have also been successful in working with the Hancock County Commissioners

in getting 50 acres of county-owned property deeded over to the nonprofit on which to build these houses.

As cooperative and understanding as these funding sources have been, we know that eventually we will exhaust their available funds. We know that other entities in other parts of rural Georgia will begin to tap these resources as aggressively as we have. The result will be a reduction in funds available to our nonprofit housing organization and, further, an inability to meet a need that grows much faster than our current resources.

There are a number of steps that could, and should, be taken to provide for more affordable housing and I will share with you my thoughts regarding appropriate actions.

First, the Federal government should redouble its efforts to make currently distressed properties available to nonprofit organizations that commit to keeping those properties affordable for low income people. We are grateful for the cooperation we have received from HUD and FmHA in gaining access to some of these foreclosed properties for potential purchase. HUD has been especially aggressive in its efforts and we are beginning to see significant flexibility on their part in our negotiations for acquisition. But we would like to see even more flexibility in terms of reducing purchase prices. This is a unique opportunity to address the affordable housing crisis as well as a chance to weave nonprofit housing development organizations into the fabric of housing

providers on a long term basis. We feel the same way about FmHA foreclosures. The key, again, is flexibility in purchase price. Nonprofits are the primary entities for keeping the focus on affordability and we need to know that the Federal government is willing to be our partner in that focus.

I would be remiss if I did not bring the Resolution Trust Corporation into this larger picture of opportunity for affordability. The savings and loan crisis will continue to be a lightening rod for criticism and justifiably so. But we feel the need to convert this crisis into a benefit for people who are inadequately housed. We encourage you to continue the strong oversight of RTC operations and exert whatever influence you can to ensure that properties are moved quickly, discounted drastically for nonprofit purchase, and to commit that the appropriate properties must be a part of the solution to the affordability problem.

Second, the Federal government must take the leadership in the development of viable nonprofit housing organizations. Our toughest challenges are apparent. Because we are not profit driven, we need to be sure that there are resources available to take care of our day-to-day administrative burdens. Resources to develop projects, while meager and highly competitive, are available from time-to-time. But paying the costs of keeping our doors open, our salaries paid, our utilities on - these are areas that project development resources do not contemplate. But if nonprofits are to have a long term existence, operating funds are needed. Support for nonprofit housing

development, however, must take the form of a broader policy commitment. We feel the need to be recognized as a critical component of a larger partnership which can help solve our housing problems. Certainly the public sector, with its resources and leadership, is a major player. The private sector has the expertise, the experience to be a major player in providing affordable housing. The partnership is complete when nonprofit housing organizations are brought into the picture because we provide the key ingredient- commitment to long-term affordability. When this partnership is formed, the capacity for finding solutions is literally limitless. Conversely, when any one player is missing the challenges faced by those remaining become more difficult to overcome.

Third, and final, is my recommendation that the Federal government provide a special focus on rural housing development. Ours are problems that cannot be solved by a trickle of Community Development Block Grant money here, and a little FmHA money there. We need attention, and resources, that are focused exclusively on rural housing needs. The Housing Opportunity Partnership program component of Senate Bill 566 is a step in the right direction. But it retains an urban bias (60% to urban areas - 40% to rural) that ignores the broad scope of rural housing problems. Poor housing quality, lack of private sector resources, wide geographic spread - these are acute obstacles in rural Georgia that demand a more equitable distribution of money.

OHAC and the other housing nonprofits in Georgia working under the technical assistance provided by the very-able GRFA, stand ready to dramatically impact the lack of affordable housing for rural Georgia. We can meet rural housing needs provided the Federal Government provides resources for program development.

I am grateful for the opportunity to be a part of this occasion. Your sensitivity to housing needs is greatly appreciated and I hope my comments have been helpful.

Senator FOWLER. Mr. Raines, Mr. Gaskins, anybody else for the good of the order?

Mr. HAIRSTON. Senator Fowler, could I make a statement?

Senator FOWLER. Yes, sir. State your name and who you represent.

Mr. HAIRSTON. Charles Hairston from Albany, I am president of a mortgage banking company, and I would not like for you and Senator Sanford to go back to Washington wondering where the mortgage bankers were. We have 90 percent of FHA and VA loans that are made.

I would also like to say that my company, and maybe ever since the existence of GRFA probably has made more loans than any other company in the State.

We have a real interest in rural housing. We have a representative in this area every week, and I think our problem is communication. We do not know who is in the market, and they do not know who we are or how to get in touch with us. Possibly it would be good to have the Farmers Home Administration maintain a list of all active mortgage bankers who make FHA and VA loans so that these people can contact us, and I assure you we will have people here to take their applications and process their loans.

We will make FHA and VA loans in rural sections on dirt roads. We will not necessarily let people split wells because we do not know who is going to fix it when it breaks down. There are many requirements.

But we use good judgment, we practice FHA and VA lending, and we have been successful for 40 years. I just thought we should be represented at this hearing.

Thank you.

Senator FOWLER. We are delighted to have you, and I am sure that Mr. Harris would enjoy continuing that discussion.

I would like to think it was as simple—I am not being critical, I would like to think it is as simple as having each field office have a list of people ready to take those loans, and if it is we have accomplished another great step forward today.

Thank you, sir.

Anybody else from the floor?

Senator SANFORD. Let me ask Mr. Hairston a question if I may.

Senator FOWLER. Yes, sir.

Senator SANFORD. Now, you have got kind of a straight out conventional mortgage banking company?

Mr. HAIRSTON. Yes, sir.

Senator SANFORD. And you have got of course people all over Georgia, all over whatever area you are operating, placing loans, you deal with real estate people.

Mr. HAIRSTON. That is correct.

Senator SANFORD. You deal with banks?

Mr. HAIRSTON. We will.

Senator SANFORD. I mean do banks normally bring you business, or do you bring them money and take their loans?

Mr. HAIRSTON. Yes; we will establish correspondent relationships with a bank and pay them a referral fee if they are in a HUD outreach area where we can pay them a fee.

Senator SANFORD. Do you service those loans, or do you go to the secondary market?

Mr. HAIRSTON. We will make the loans, and some will end up in the secondary market, yes.

Senator SANFORD. Very good. I just wanted to sort of get a picture of—I sort of guessed at some of those things.

Obviously it is a very important part of the home loan business, a crucial part of it.

Thank you.

Mr. HAIRSTON. Yes, sir.

Senator FOWLER. Yes, sir.

Mr. BUSH. There was a question asked while ago that was not answered, and I believe that I can answer it.

I believe that what I am going to say about it will make a big difference.

Senator FOWLER. This is Mr. Paul Bush.

Mr. BUSH. Paul Bush.

Senator FOWLER. Stand up so the rest of us can hear you.

Mr. BUSH. OK. You asked a little while ago what we would do about all these foreclosures, and I do believe there is something that can be done about them. It has to be done before the person buys the house.

What I feel that you need to do if you have a person, or a man and his wife, or just one person, either way, that wants to buy a house, you do not need to sell him a 3-bedroom house with a carport. We need to sell him a 1-bedroom house without a carport.

Now, that might pose a little bit of a problem, so what you can do is just take you a lot and have a zero lot line, and sell him half that house and be able to sell another person the other half of the house on the same lot, and if we do that we bring the amount of money down from that $45,000 to $25,000 so he can see the light at the end of the tunnel. He is not paying on this thing and say "Well, I will never pay for it, so I am not going to just keep on going, so I am just going to move out and let the government have it." That is what happens in many, many cases.

That was just one little point that I wanted to bring out.

Senator SANFORD. Thank you, Mr. Bush.

Senator FOWLER. That is very helpful.

I am going to let—you all ain't running for anything, are you? [Laughter.]

Mr. FLOYD. I am James Floyd, and I am from Newton, Georgia, but I also represent the Rural Housing Council of Southwest Georgia.

Senator, let me make a comment about the pros and cons of the Farmers Home Administration, and I want to use it like this.

You know, the——

Senator FOWLER. We have got a 2-minute rule here. Go ahead.

Mr. FLOYD. Well, they were designated in 1939 I believe, and what we need is on a local level, on a local FMHA level we need a rural development specialist in that office, we need a computer specialist in that office, and we need a clerk specialist in that office. Now, this would alleviate the Farmers Home problem and the communication problem.

You could take—for example, in the State of Georgia in Seminole County we have a lady, a county supervisor and two assistants down there, two women, and that woman is making 503 loans, she is servicing 502 loans, and she has zero inventory, and zero delinquents, and that woman is doing a job.

If we can get that in every county in the State of Georgia, we could be proud of our situation.

That is what we need, we need more personnel in Farmers Home Administration on a local level.

Senator FOWLER. Thank you, Mr. Floyd.

Last comment.

Mr. ANDERSON. Yes, sir. John C. Anderson, I am representing the housing authorities here, and I have given you a written testimony here, but one thing we want to do is emphasize that we are going to continue working with Farmers Home and try to get information back to us where we do not conflict with each other and have vacancy problems in housing authorities.

We also want to emphasize to you that we are nonprofit agencies, and would like to be included in the various programs and all, and not specifically excluded as we have been in the past, and these comments are included in my written statement.

Senator FOWLER. We will be glad, Mr. Anderson, to make those a part of the record, and it is absolutely mandatory if we are going to solve some of these problems that you be included as active participants.

Mr. ANDERSON. Thank you.

Senator FOWLER. I want to thank all the panelists, thank the fine audience. This is a tough national problem.

Thanks to men like Terry Sanford who work on these matters daily trying to improve and change and adapt, be flexible, find a way of continuity, work with the private and public sectors together, we will continue to work and see if we cannot come up with a better way to skin the cat.

I want to thank him very much again for his being here, and allow him to give the benediction.

Senator SANFORD. Let me ask Matt Churchill, who is on my staff, to stand. He has been with me now since I have been in Washington, and unfortunately for me he is leaving to go to Stanford Law School this fall, but he has become in these years a real expert on rural housing, and I am sorry to see him go. He is very thorough, he has even got a tab in here that says Closing Statement which says "Thanks." [Laughter.]

And we do thank you all for being here to testify.

Senator FOWLER. Let me introduce—this is Steve Humphreys who helps me so much with my housing and rural matters. He has just moved his family to Athens. He has been in Washington with me for the last 4 years, but has come home to Athens.

And then where is Hil McKimmey, the people that work down here, and Deborah Douglas who staffs my Columbus office. I want you to meet these folks because if you have got anything nice to say about my public service, you call me, but if you have got a problem call one of these folks. [Laughter.]

We thank the town of Richland for hosting us today, and all of you for coming.

We stand adjourned.

[Whereupon, at 11:50 a.m., the hearing was adjourned.]

United States Department of Agriculture
Farmers Home Administration
Georgia State Office
355 East Hancock Avenue
Athens, Georgia 30610

July 25, 1990

Honorable Wyche Fowler, Jr.
United States Senate
204 Russell Building
Washington, D.C. 20510-1003

Attention: Steve Humphreys

Dear Senator Fowler:

This is in response to your letter of June 29, 1990. Attached you will find the information you requested with regard to the hearing on July 28, 1990.

If additional information is needed, please contact this office.

Sincerely,

TOM HARRIS
State Director

Attachments

FmHA Farmers Home Administration is an Equal Opportunity Lender.
Complaints of discrimination should be sent to:
Secretary of Agriculture, Washington, D.C. 20250

INFORMATION REQUESTED BY SENATOR FOWLER'S OFFICE
FOR HEARING ON JULY 28, 1990

		EXHIBIT
1.	UNDERSERVED COUNTIES IN GEORGIA	A
2.	FmHA UNDERSERVED DEMONSTRATION IN GEORGIA	A
3.	COUNTY-BY-COUNTY BREAKDOWN OF FmHA INVENTORY HOUSING	B
4.	NON-PROFIT FmHA HOUSING APPLICATIONS BY COUNTY	C
5.	BREAKDOWN OF ELDERLY HOUSING PROJECTS IN GEORGIA	D
6.	PERCENTAGE OF ELDERLY RESIDENTS IN FmHA PROJECTS	E
7.	GEORGIA APPLICATION BACKLOGS	F
8.	FUNDING TO ELIMINATE BACKLOGS	F
9.	CURRENT ALLOCATIONS VS. OBLIGATIONS BY PROGRAM	G

IN ADDITION, WE HAVE ADDED THE FOLLOWING:

	SUMMARY OF RH PROGRAM IN GEORGIA	H
	SECTION 515 PROGRAM IN GEORGIA	I

EXHIBIT A

"Underserved" (Targeted Counties) in Georgia:

1. Clay
2. Hancock
3. Marion
4. Stewart
5. Taliaferro

Outstanding Rural Loans in Above Counties:

	502:	No. Projs.	Sec. 515 Units	Money
Clay	48	1	36	$820,000
Hancock	101	0	0	$0
Marion	46	3	73	$1,967,800
Stewart	69	1	20	$ 506,350
Taliaferro	30	0	0	$0

Housing Loans and Grants Made in FY 90 in Above Counties:

	502	504 Loans	504 Grants	515 Loans
Clay	0	0	0	0
Hancock	0	1-6800	4-18,270	0 *
Marion	0	0	1-5000	0
Stewart	1-$37,500	2-44100	0	1-$880,760 (51 unit elderly)
Taliaferro	0	0	2-7420	0

* We have a Section 515 application for 49 units of elderly housing in process at this time. It could be funded on National pooling date (August 15, 199 . If not, it should be funded in early FY 91.

EXHIBIT B

SINGLE FAMILY HOUSING INVENTORY
GEORGIA

	COUNTY	FmHA COUNTY OFFICE	DISTRICT		COUNTY	FmHA COUNTY OFFICE	DISTRICT
0	APPLING	BAXLEY	7	11	DOUGHERTY	ALBANY	5
0	ATKINSON	DOUGLAS	7	0	DOUGLAS	CARROLLTON	1
6	BACON	ALMA	7	2	EARLY	BLAKELY	5
1	BAKER	COLQUITT	5	0	ECHOLS	VALDOSTA	6
2	BALDWIN	EATONTON	3	0	EFFINGHAM	STATESBORO	7
0	BANKS	CARNESVILLE	2	2	ELBERT	HARTWELL	2
3	BARROW	WINDER	2	7	EMANUAL	SWAINSBORO	4
7	BARTOW	CARTERSVILLE	1	1	EVANS	REIDSVILLE	7
3	BEN HILL	OCILLA	6	2	FANNIN	JASPER	1
2	BERRIEN	OCILLA	6	0	FAYETTE	GRIFFIN	3
0	BIBB	MACON	3	6	FLOYD	SUMMERVILLE	1
0	BLECKLEY	COCHRAN	6	1	FRANKLIN	CARNESVILLE	2
2	BRANTLEY	BLACKSHEAR	7	0	FULTON	McDONOUGH	1
3	BROOKS	VALDOSTA	6	0	GILMER	JASPER	1
2	BRYAN	STATESBORO	7	1	GLASCOCK	LOUISVILLE	4
3	BULLOCH	STATESBORO	7	0	GLYNN	BAXLEY	7
3	BURKE	WAYNESBORO	4	4	GORDON	CALHOUN	1
0	BUTTS	McDONOUGH	1	2	GRADY	CAIRO	5
0	CALHOUN	BLAKELY	5	13	GREENE	GREENSBORO	2
1	CAMDEN	BAXLEY	7	0	GWINNETT	WINDER	2
3	CANDLER	LYONS	7	0	HABERSHAM	CLARKESVILLE	2
4	CARROLL	CARROLLTON	1	3	HALL	GAINESVILLE	2
1	CATOOSA	LaFAYETTE	1	2	HANCOCK	EATONTON	3
0	CHARLTON	BLACKSHEAR	7	1	HARALSON	CEDARTOWN	1
0	CHATHAM	STATESBORO	7	0	HARRIS	BUTLER	3
0	CHATTAHOOCHEE	BUTLER	3	0	HART	HARTWELL	2
5	CHATOOGA	SUMMERVILLE	1	1	HEARD	CARROLLTON	1
8	CHEROKEE	JASPER	1	1	HENRY	McDONOUGH	1
0	CLARKE	ATHENS	2	5	HOUSTON	MACON	3
0	CLAY	BLAKELY	5	0	IRWIN	OCILLA	6
0	CLAYTON	McDONOUGH	1	0	JACKSON	GAINESVILLE	2
0	CLINCH	BLACKSHEAR	7	2	JASPER	MADISON	2
0	COBB	CARTERSVILLE	1	1	JEFF DAVIS	McRAE	7
2	COFFEE	DOUGLAS	7	12	JEFFERSON	LOUISVILLE	4
2	COLQUITT	MOULTRIE	7	0	JENKINS	SYLVANIA	4
1	COLUMBIA	THOMSON	4	6	JOHNSON	SANDERSVILLE	4
2	COOK	TIFTON	6	0	JONES	MACON	3
0	COWETA	NEWNAN	3	0	LAMAR	BARNESVILLE	3
0	CRAWFORD	MACON	3	6	LAURENS	DUBLIN	4
1	CRISP	ASHBURN	6	1	LEE	ALBANY	5
0	DADE	LaFAYETTE	1	6	LIBERTY	REIDSVILLE	7
0	DAWSON	GAINESVILLE	2	2	LINCOLN	WASHINGTON	4
3	DECATUR	BAINBRIDGE	5	2	LONG	REIDSVILLE	7
0	DEKALB	COVINGTON	2	10	McDUFFIE	THOMSON	4
0	DODGE	COCHRAN	6	1	McINTOSH	REIDSVILLE	7
0	DOOLY	VIENNA	6	3	MACON	MONEZUMA	3

SINGLE FAMILY HOUSING INVENTORY
GEORGIA

	COUNTY	FmHA COUNTY OFFICE	DISTRICT
0	MADISON	ATHENS	2
0	MARION	BUTLER	3
3	MERIWETHER	NEWNAN	3
3	MILLER	COLQUITT	5
11	MITCHELL	CAMILLA	5
0	MONROE	BARNESVILLE	3
0	MONTGOMERY	LYONS	7
0	MORGAN	MADISON	3
1	MURRAY	CALHOUN	1
0	MUSCOGEE	BUTLER	3
3	NEWTON	COVINGTON	2
0	OCONEE	ATHENS	2
0	OGLETHORPE	ATHENS	2
9	PAULDING	CARTERSVILLE	1
2	PEACH	MACON	3
6	PICKENS	JASPER	1
4	PIERCE	BLACKSHEAR	7
0	PIKE	GRIFFIN	3
11	POLK	CEDARTOWN	1
0	PULASKI	VIENNA	6
3	PUTNAM	EATONTON	3
0	QUITMAN	DAWSON	5
0	RABUN	CLARKESVILLE	2
0	RANDOLPH	DAWSON	5
1	RICHMOND	WAYNESBORO	4
1	ROCKDALE	COVINGTON	2
0	SCHLEY	MONTEZUMA	3
2	SCREVEN	SYLVANIA	4
0	SEMINOLE	DONALSONVILLE	5
2	SPALDING	GRIFFIN	3
2	STEPHENS	CARNESVILLE	2
0	STEWART	DAWSON	5
7	SUMTER	AMERICUS	3
1	TALBOT	BUTLER	3
1	TALIFERRO	WASHINGTON	4
5	TATTNALL	REIDSVILLE	7
0	TAYLOR	BUTLER	3
4	TELFAIR	McRAE	7
3	TERRELL	DAWSON	5
2	THOMAS	MOULTRIE	6
4	TIFT	TIFTON	6
1	TOOMBS	LYONS	7
0	TOWNS	BLAIRSVILLE	2
0	TREUTLEN	DUBLIN	4
1	TROUP	NEWNAN	
1	TURNER	ASHBURN	
0	TWIGGS	MACON	
0	UNION	BLAIRSVILLE	
0	UPSON	BARNESVILLE	
7	WALKER	LaFAYETTE	
1	WALTON	WINDER	
0	WARE	BLACKSHEAR	
3	WARREN	THOMSON	
3	WASHINGTON	SANDERSVILLE	
5	WAYNE	BAXLEY	
0	WEBSTER	AMERICUS	
0	WHEELER	McRAE	
0	WHITE	CLARKESVILLE	
0	WHITFIELD	LaFAYETTE	
0	WILCOX	ASHBURN	
7	WILKES	WASHINGTON	
0	WILKINSON	DUBLIN	
2	WORTH	SYLVESTER	

THERE ARE NO SECTION 515 INVENTORY PROPERTIES IN GEORGIA.

EXHIBIT C

NON-PROFIT FMHA HOUSING APPLICATIONS BY COUNTY (SECTION 515):

At the present time, we have only one non-profit preapplication in Georgia. The name is Envistas Corporation filed April 27, 1976, in Lamar County.

A list of loans we have with public bodies (non-profit) and private non-profits are as follows:

NAME OF LOAN	LOAN DATE	LOAN AMOUNT	NO. UNITS
HOUSING AUTHORITY OF WASHINGTON	4/75	$1,263,000	24
HOUSING AUTHORITY OF TOCCOA	2/80	1,000,000	50
HOUSING AUTHORITY OF BARNESVILLE	3/80	1,240,000	72
HOUSING AUTHORITY OF BAINBRIDGE	1/80	1,971,000	76
HOUSING AUTHORITY OF DUITMAN	1/81	692,000	30
HOUSING AUTHORITY OF CAVE SPRINGS	1/81	888,800	32
HOUSING AUTHORITY OF DAWSON	9/80	500,000	20
RURAL HOUSING INC. (GRIFFIN, GA)	10/71	415,000	26

EXHIBIT D

EFFECTIVE 7-20-90

"ELDERLY" SECTION 515 PROJECTS IN GEORGIA

FY 1990	TOWN	UNITS	LOAN AMOUNT
Diamond Housing Assoc., L.P.	Jackson	50	$1,302,500
Hartwell Elderly, L.P.	Hartwell	25	659,600
Claxton Elderly, L.P.	Claxton	24	660,360
Oglethorpe Court, L.P.	Woodbine	24	624,000
Lavonia Gardens, L.P.	Lavonia	24	624,500
Mt. Vernon Elderly Housing, L.P.	Mt. Vernon	24	383,000
Richland Elderly Housing, L.P.	Richland	32	880,720
Heritage Villas, L.P.	Helena	24	667,160
Gervaise Apts. L.P.	Sylvester	40	1,088,500
Lakeland Elderly Housing, L.P.	Lakeland	32	793,460
Greenville Village, L.P.	Greenville	24	664,450
Gibson Village, L.P.	Gibson	18	496,700
		345	$9,344,230

FY 1989	TOWN	UNITS	LOAN AMOUNT
Ashburn Housing, L.P.	Ashburn	41	$1,067,000
Quail Hollow, L.P	Homerville	55	1,486,900
Ellaville Properties, L.P	Ellaville	30	795,400
Elberton Assoc., L.P	Elberton	24	654,750
Meadow Run, L.P	Crawford	24	645,050
Spring Creek Apts., L.P	Quitman	18	495,580
Cuthbert Elderly Housing, L.P.	Cuthbert	32	835,170
Buena Vista Housing	Buena Vista	25	664,450
Pearson Elderly Housing, L.P.	Pearson	24	654,750
Rosewood Village, L.P	Willacoochee	24	654,750
		297	$7,953,800

FY 1988	TOWN	UNITS	LOAN AMOUNT
Longleaf Apts., L.P.	Cairo	36	$ 992,700
Vidalia Village L.P.	Vidalia	59	1,492,100
Lake Park, L.P.	Lake Park	60	1,154,200
Waynesboro Properties, L.P.	Waynesboro	28	741,700
American Properties, L.P.	American	59	1,474,400
Monroe Properties, L.P	Monroe	56	1,420,500
		298	$7,551,00

-page 2--

FY 1987	TOWN	UNITS	LOAN AMOUNT
Madison Apts., L.P.	Comer	8	$ 177,500
Riverdell Apts., L.P.	Bainbridge	38	992,500
Talbot Village, L.P	Talbotton	24	606,100
Willowpeg Village, L.P	Rincon	57	1,499,100
Blackshear Apts., L.P	Cordele	40	1,077,300
Hilltop Terrace, L.P	Kingsland	56	1,499,10
Wildwood Villas, L.P.	Statesboro	56	1,477,100
Nashville Villas, L.P.	Nashville	[illegible]	[illegible]
Vienna Housing, L.P.	Vienna	30	729,[illegible]
Fitzgerald Properties	Fitzgerald	56	1,499,100
		398	$10,461,400

FY 1986	TOWN	UNITS	LOAN AMOUNT
Peach Village, L.P	Wadley	24	$ 598,400
Glennville Properties, L.P	Glennville	24	601,250
		48	$1,207,[illegible]

FY 1985	TOWN	UNITS	LOAN AMOUNT
Orchard Apts., L.P.	Cumming	24	$ 570,[illegible]
Apple Village, L.P	Glenwood	24	593,700
		48	$1,164,[illegible]

FY 1984	TOWN	UNITS	LOAN AMOUNT
Cornelia Development, L.P.	Cornelia	20	$ 466,600
Clearview Apts, L.P.	Twin City	16	383,300
Oak Village, L.P.	Zebulon	24	565,000
Pelham Elderly, L.P.	Pelham	24	573,80[illegible]
The Forest, L.P.	Moultrie	50	1,212,200
		134	$3,200,700

FY 1983	TOWN	UNITS	LOAN AMOUNT
Brierwood II, L.P.	Bainbridge	16	$ 377,[illegible]
		16	$ 377,[illegible]

page 3

FY 1982	TOWN	UNITS	LOAN AMOUNT
NONE			

FY 1981	TOWN	UNITS	LOAN AMOUNT
James Dixon	Camak	1	$ 163,000
Marion Senior Housing, L.P.	Newnan	60	3,198,000
Valley Road	Lyons	3	100,000
		70	$3,461,000

FY 1980	TOWN	UNITS	LOAN AMOUNT
Heritage Village II, L.P.	Blackshear	32	$ 612,500
Cedartown Housing Assoc., L.P.	Cedartown	60	823,000
Summerhill Properties, L.P.	Carrollton	60	1,263,000
Walton Village, L.P.	Monroe	60	992,600
Washburn Apts	Cumming	76	501,000
South Moultrie, L.P.	Moultrie	69	1,480,000
		377	$6,210,600

FY 1979	TOWN	UNITS	LOAN AMOUNT
Housing Authority of Forest	Forest	50	$1,040,000
Peachtree City Sen. Housing, L.P.	Peachtree City	50	1,235,000
		100	$2,275,000

FY 1978	TOWN	UNITS	LOAN AMOUNT
James Dixon	Colbert	8	$ 108,200
Heritage Village, Ltd.	Blackshear	32	683,860
		40	$ 792,060

Total "Elderly" Projects: 41
Total Units: 2073 Units
Total Funds: $41,666,862

EXHIBIT E

PERCENTAGE OF ELDERLY RESIDENTS IN FMHA PROJECTS

We do not have any reports that provides the ages of the tenants in 515 Projects. However, in August 1987 GAO completed a Cost Information Audit (GAO/RCED-87-96) on the Section 515 program. The Audit was performed on 44 projects in 6 states. Georgia was one of the states included in the audit. The audit stated:

> "The majority of households assisted under the Section 515 Program have very low incomes (averaging under $8,200) and are headed by unmarried females. In addition, over 40 percent are headed by elderly persons."

We believe the 40% would be a realistic figure for Georgia.

EXHIBIT F

GEORGIA APPLICATION BACKLOGS AND FUNDING THAT WOULD BE REQUIRED TO ELIMINATE BACKLOG:

502 PROGRAM:

Georgia currently has a total of 1,800 applications (502) on hand at this time. It is estimated that approximately 60% of these are eligible and ready for funding at this time if funds were available. Estimated money needed is $12,000,000 in fund loans.

515 PROGRAM:

On June 13, 1990, we surveyed the District Offices to determine the total number of applications in process and the number of preapplications on hand that the Districts believed were eligible for funding.

The total of this survey indicates that we had feasible proposals of $119,000,000 in loan funds and approximately 7400 units of rental assistance for new construction on hand.

EXHIBIT G

CURRENT ALLOCATIONS VS. OBLIGATIONS BY PROGRAM:

	ALLOCATED	OBLIGATED
502 SUBSIDIZED LOAN FUNDS	$32,601,000	$32,801,000
502 NONSUBSIDIZED FUNDS	1,000,000	1,000,000
502 TARGETED LOAN FUNDS	[illegible]	[illegible]
504 LOAN FUNDS	[illegible]	[illegible]
504 TARGETED LOAN FUNDS	[illegible]	[illegible]
504 GRANT FUNDS	[illegible]	[illegible]
504 TARGETED GRANT FUNDS	[illegible]	[illegible]
	[illegible]	[illegible]
515 LOAN FUNDS	$19,591,000	$19,666,000
515 TARGETED FUNDS	[illegible]	[illegible]
HPG FUNDS	[illegible]	[illegible]
	[illegible]	[illegible]

SUMMARY OF RH PROGRAM IN GEORGIA
CFH AND MFH

EXHIBIT H

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990*
TOTAL OBLIGATIONS	$58,506,630	$67,441,296	$97,781,410	$125,065,576	$126,499,374	$142,989,158	$87,161,772	$64,194,142	$50,923,364	$41,310,674	$42,074,845	$55,603,830	$66,736,090	$55,948,040
TOTAL LOANS	2717	2978	3583	4090	3727	3541	1773	1317	925	1316	844	1146	1384	1171
MFH NO.	NA	NA	NA	30	45	50	47	44	32	26	20	21	23	19
AMOUNT	$6,345,560	$8,713,150	$18,732,350	$29,187,850	$37,120,000	$42,017,810	$33,071,400	$32,865,850	$29,473,435	$23,410,250	$22,538,600	$24,660,850	$23,021,550	$17,206,140
UNITS	NA	NA	932	1270	1545	1699	1282	1214	1082	852	829	857	805	606
SFH 502 NO.	2649	2836	3308	3594	3244	3298	1489	1094	771	684	691	959	1197	1000
AMOUNT	$51,989,370	$58,373,506	$78,154,770	$94,416,376	$87,922,974	$100,318,250	$53,212,072	$31,103,802	$21,027,160	$17,248,194	$19,042,556	$30,372,020	$43,107,260	$38,131,080
SFH 504 NO.	34	50	96	144	145	54	44	28	25	30	25	31	42	46
AMOUNT	$90,180	$110,310	$260,260	$527,018	$437,970	$156,820	$160,830	$114,270	$62,650	$91,540	$70,220	$94,060	$159,300	$214,770
SFH 504 GRANTS NO.	34	92	179	322	293	139	193	151	97	576	108	135	122	106
AMOUNT	$81,570	$244,330	$634,030	$939,370	$1,018,430	$496,978	$717,520	$610,720	$360,119	$660,690	$423,470	$476,900	$447,980	$396,050
TOTAL SFH NO.	2717	2978	3583	4060	3682	3491	1726	1273	893	1290	824	1125	1361	1152
AMOUNT	$52,161,120	$58,728,146	$79,049,060	$95,877,726	$89,379,374	$100,972,048	$54,090,372	$31,828,792	$21,449,929	$17,900,424	$19,536,246	$30,942,980	$43,714,540	$38,741,900
SFH 502 BORROWERS	NA	27063	NA	NA	32653	34414	34898	34169	33048	31347	29682	24017	23892	23825
NO. DELINQUENT	NA	6883	NA	NA	7363	6859	6153	5358	5011	4485	4703	2593	2857	2035
PERCENT DELINQUENT	NA	25.4	NA	NA	22.5	20	17.6	15.7	15.2	14.3	15.8	10.8	12.0	8.5
SFH INVENTORY	461	289	280	352	441	525	513	520	565	549	419	307	292	313
SFH ACQUISITIONS	525	289	234	240	278	406	582	612	727					
SFH SALES	690	476	246	168	189	322	604	605	693	779	630	482	387	272
SALES AMOUNT	$11,216,615	$9,038,566	NA	NA	NA	NA	$15,034,990	$15,624,535	$17,144,045	$19,412,022	$17,093,709	$13,727,622	$11,163,183	$8,282,210

* AS OF JUNE 30, 1990

EXHIBIT I

As of July 20, 1990

SECTION 515 PROGRAM - GEORGIA

Number of Projects in Operation: 380

LOANMAKING SINCE 1980:

FY	ALLOCATIONS	OBLIGATIONS	LOANS	UNITS	UNITS	AVERAGE LOAN/UNIT
1980	$25,805,000	$22,187,450	30	1,526	0	$ 14,543
1981	27,151,000	27,150,051	41	1,814	0	14,962
1982	38,383,000	40,017,810	56	1,664	5	24,050
1983	32,648,000	31,021,400	47	1,263	36	24,727
1984	31,431,000	30,365,250	44	1,214	150	24,660
1985	31,372,000	29,473,430	38	1,082	114	27,244
1986	23,113,000	23,410,250	27	864	48	27,118
1987	23,658,000	20,538,200	20	852	304	24,108
1988	20,257,000	24,660,150	21	857	280	28,775
1989	19,100,000	21,021,550	23	893	108	23,543
1990*	19,697,000	19,766,690	20	698	145	28,603
TOTAL	$307,474,000	$316,814,281	380	12,143	1,213	26,096

*As of July 20, 1990: We have the possibility of obtaining additional funds on National pooling date, which is August 13, 1990.

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TOTAL PROJECTS IN OPERATION & OBLIGATED: 438

TOTAL UNITS IN OPERATION & OBLIGATED: 14,280

Farm Credit Council

FACT SHEET

FINANCING RURAL HOME LOANS

BACKGROUND

Section 1.9 of the Farm Credit Act, as amended, provides that credit and related financial services may be made available to persons who are stockholders or members of the bank or associations in a Farm Credit District. These services include the opportunity for customers to finance their rural homes.

Section 1.11 Subpart (b) specifically provides with regard to financing rural housing that:

- Rural housing that is financed shall be for single-family, moderate-priced dwellings (and their appurtenances) not inconsistent with the general quality and standards of housing existing in, or planned or recommended for, the rural area where it is located,
- A Farm Credit Bank may not at any one time have loans for rural housing outstanding in amounts exceeding 15 percent of its total loan portfolio, and
- such financing be in rural areas or cities having a population not more than 2,500 people.

Creation of Agricultural Mortgage Secondary Market

The passage of the Agricultural Credit Act of 1987 established the first secondary market specifically designed for agricultural loans. The general provisions of this section of the '87 legislation provides that to qualify for inclusion as a loan which may be pooled and sold into the secondary market, a rural home loan must be:

- a principal residence that is single-family, moderate-priced residential dwelling located in a rural area and in a community not larger than 2,500 people or having a purchase price not more than $100,000 (as adjusted for inflation).

Beyond this provision of the '87 Act, the secondary market will require diversified pools to reduce the risks incurred in providing guarantees. The pools must consist of loans which are:

- secured by agricultural real estate that is widely distributed geographically,
- vary widely in terms of amounts of principal, and
- be comprised of at least 50 loans.

The '87 Act further prohibits including within a pool, any loan which has a principal amount which exceeds 3.5 percent of the

aggregate amount of principal of all loans in such a pool or two or more loans to related borrowers.

Farm Credit Response to Rural Housing Demand

The banks and associations of the Farm Credit System have moved to meet the need for the financing of rural homes by providing flexible terms and conditions. Many institutions offer five to 30 year terms, convertibility from an adjustable rate to a fixed rate program, no prepayment penalty, financing for up to 85 percent of the value of the home, timely review of applications and personalized service.

Potential Demand for the Secondary Market

At present, there are many unknowns with regard to the secondary market and its applicability to rural housing. Initially, there is the question of interest on behalf of System institutions. Further, there is no base of information as to how many loans might be available for securitization from the System, nor the level of investor interest.

CWF

Honorable Wyche Fowler, Jr.
Honorable Terry Sanford
U.S. Senate Budget Committee
204 Russell Senate Office Building
Washington, D.C. 20510-1003

Dear Senators Fowler and Sanford;

During my testimony before you on July 28, 1990 in Richland, Georgia, you requested that I advise you of action that could be taken permitting delinquent Farmers Home Administration borrowers to remain in their dwellings longer before liquidation action was initiated.

I would like to review the major servicing authorities available under current regulations to assist borrowers having problems making the scheduled payments on Section 502 loans.

1 - When it is known that a borrower is experiencing financial difficulties, the County Supervisor counsels his/her on use and cost of credit, conserving energy, property maintenance and applicable Farmers Home Administration authorities and assistance which may be available to them. When it is deemed necessary, the County Supervisor will assist in the development of a budget to help the borrower make the best use of available resources.

2 - Referral to counselors from outside the Agency, who will work with borrowers having problems to help alleviate their financial difficulties.

3 - Interest Credits - When servicing loan accounts, the County Supervisor makes certain that borrowers are receiving all of the Interest Credit Assistance for which they are eligible. A substantial reduction of income may qualify the borrower for additional Interest Credit prior to the expiration of the current Interest Credit Agreement.

4 - A Moratorium of payments may be granted for a period of up to two (2) years when a borrower is not able to make his or her regular payments due to adverse conditions based on circumstances beyond the borrower's control. At the end of the moratorium period, a borrower who can bring the account current within two (2) years by paying the payments which were deferred during the moratorium period is permitted to enter into a new repayment schedule. When a borrower can not bring the account current within two (2) years through the use of a new repayment schedule, the loan is considered for reamortization within the remaining

terms of the loan. If neither of the above will permit the borrower to make the payments as scheduled, then consideration may be given to cancellation of all or a portion of the interest which accrued during the moratorium period.

If, after being on a moratorium for two (2) years, a review of the borrowers situation reveals that they are still unable to resume monthly payments, the loan must be liquidated. This decision to liquidate is made only after FmHA considers granting all interest credit, canceling interest accrued during the moratorium, and reamorization of the account.

If it becomes necessary to liquidate the rural housing loan, the borrower is encouraged to voluntarily liquidate the loan. Should the borrower not be able or willing to voluntarly liquidate the account, it is accelerated, and the borrower is given appeal rights consisting of the following:

The borrower is given 15 days to meet with the District Director to attempt to resolve the problem. If this meeting does not resolve the problem, the borrower will then be granted 30 days to request an appeal hearing with a member of the National Appeal Staff. This hearing officer has the authority to uphold, modify, or overturn the decision to accelerate the loan. The hearing is scheduled within 45 days .

A decision must then be made by the hearing officer within 30 calendar days.

Should a borrower not agree with this decision, they will be given 30 days to request a review by either the State Director or the Director of the National Appeals Staff. Should the borrower request a review by the State Director, this will be accomplished and a decision rendered within 45 days. Should the borrower not agree with this decision, they would then be given 30 days to request a further review by the Director of the National Appeals Staff. This review would be held within 45 days, and a decision which would be considered administratively final would be rendered.

This appeal process itself can take up to a maximum of 270 days.

As to the required time for a foreclosure, FmHA in Georgia has foreclosed by the judicial method for the past 13 years. The average time required under this method is about two (2) years. Recently, however, we have been given the authority to change our method of foreclosure to the nonjudicial method, which should average 5 to 6 months.

After considering that foreclosure action is not started for the first time on a borrower until after three (3) months delinquency, that the appeal process can take up to 9 months to complete, and that a judicial foreclosure averages two (2) years, we readily see that it is possible for a borrower to live in a house without making any payments over three (3) years under the judicial foreclosure method and up to 1 1/2 years under the nonjudicial method of foreclosure.

We don't believe, however, that we have helped a borrower when this occurs, even though for a period of time they may have received housing without making a payment.

FmHA has been granted excellent authorities for servicing loans to low and very low income applicants. We must conclude, however, that more supervised credit could do more to keep borrowers with financial difficulties in their homes than any other means we know. This could be accomplished by additional Agency personnel, or through the funding of housing counselors through other Agencies with whom FmHA and their borrowers could work. The impending field office specialization project in Georgia will provide our County Office personnel improved opportunities to provide more supervision.

A second part of this request was that consideration be given to means by which foreclosures by the lender of guaranteed loans could be delayed. It would appear that this could be accomplished by permitting the lender to assign the loan to FmHA and receive a payment settlement after required collection efforts had failed. This would then place the responsibility of liquidating and remarketing the property on FmHA . We do not recommend this approach. However, we would recommend that the private lender be required to provide extensive credit counseling, either in house or by referrals, prior to consideration of liquidation by foreclosure. It is recognized that servicing requirements beyond that of normal trade practice would likely affect the willingness of many lenders to participate in the guaranteed rural housing program.

Another request was for consideration to be given as to means by which nonprofit groups could receive more assistance from FmHA. FmHA in Georgia has had very limited experience in lending to nonprofit groups, mainly due to the fact that there are very few such groups dedicated to providing low and very low income housing. We are aware of 12 such groups in the state, 11 of which have been organized in recent years.

FmHA has made approximately $2 1/2 million in grants to four (4) of these groups for the repair of 498 houses. FmHA has also worked with some groups on the utilization of FmHA inventory houses.

FmHA enjoys an excellent working relationship with these groups, and we are committed to working with nonprofit groups who are eligible for assistance in the same manner as all other applicants.

In order for nonprofit groups to become more active, the major need is for them to become better organized through local leadership interested in low income housing and willing to dedicate the required time and effort on a long range basis to this endeavor. The most obvious and appropriate facilitator for this role, in my opinion, is the local Public Housing Authority.

I hope you will find this information useful and helpful. Housing is an important component of our rural development. I share your commitment to improving the opportunities and quality of life for our rural citizens.

TOM HARRIS
State Director

HAC

Housing Assistance Council Inc. • 1025 Vermont Ave., N.W. • Suite 606 • Washington, D.C. 20005 • (202) 842-8600

September 10, 1990

The Honorable Wyche Fowler
United States Senate
Washington, D.C. 20510

Dear Senator Fowler:

At the Budget Committee hearing you chaired in Georgia on July 25, 1990, you asked for additional comments from HAC pertinent to assisting elderly homeowners who had excessive shelter costs. The figure HAC used in its statement (taken from the 1987 American Housing Survey, as are the figures in this letter) was 1,570,000 non-metro homeowning households paying 40 percent or more of household income for shelter. We suggested that many of those were elderly and that many had already paid off their home mortgages. The following observations and suggestions are an amplification of that earlier statement, and in response to your request.

In nonmetro America, there are 4,337,000 owner-occupied housing units headed by persons 65 years of age or older. Since 10.5 percent of all nonmetro homeowners pay at least 40 percent of their income for housing, we can estimate that at least 454,000 nonmetro elderly homeowners experience this type of cost burden. This would be a conservative estimate since, on the average, nonmetro elderly homeowners pay a larger proportion of their income for housing than other nonmetro homeowners.

We also know that 14.2 percent of all elderly homeowners, both nonmetro and metro, pay 40 percent or more of their income for housing. Applying this percentage to nonmetro elderly homeowners provides an estimate of about 615,000 households with excessive housing costs. Thus, a reasonable estimate of the number of nonmetro elderly homeowners that pay at least 40 percent of their income for housing ranges from about 454,000 to 615,000.

HAC believes that these families deserve financial help every bit as much as renters who in fact are eligible for shelter assistance. Some states offer property tax relief to elderly householders, and the possibility of home equity loans exists for other homeowners. Assistance in meeting utility bills (often the major shelter cost) is available in some places. Inevitably, however, the various existing programs do not reach all those who

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need help. It is for those families that HAC suggests a voucher or certificate program which would pay to the homeowner the difference between 40 percent of income and total shelter costs.

If a program patterned after the Section 8/voucher program for renters is unacceptable, other possibilities exist.

A variation of the earned income tax credit now available for working parents is a feasible alternative, if the intended beneficiaries, who do not now file federal income tax forms because of their very low incomes, can be induced to file the requisite return.

A somewhat more complicated procedure might be instituted whereby states, acting as agents for local property taxing authorities, would bill the Federal government each year for all of the foregone taxes on the homes of the elderly who documented their shelter cost overburden adequately to the local authorities, and in consequence received a tax abatement, and, if necessary, a cash payment.

A third possibility would be to have the program administered by the Social Security Administration. Retirees, believing themselves eligible for a housing benefit, would apply with documentation showing the amount of their shelter overburden, and their monthly check would be increased by an amount equal to the monthly overburden.

It scarcely needs to be said that while HAC initially suggested such a program for rural areas, and did so because incomes and housing problems in rural areas seem to be significantly worse than in metropolitan areas, some kind of comparable assistance program to low-income homeowners is necessary nationally. It would in fact be virtually impossible to enact such a program for rural residents only.

If you believe any of these suggestions worthy of further study, we would be glad to further develop such a program.

We very much appreciate this opportunity to comment further on this aspect of our nation's rural housing problems.

Respectfully,

Moises Loza
Executive Director

ML/lc

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September 10, 1990

The Honorable Wyche Fowler
United States Senate
Washington, D.C. 20510

Dear Senator Fowler:

At the Budget Committee hearing you chaired in Georgia on July 25, 1990, you asked for any comments HAC might offer which would permit the Farmers Home Administration to work more effectively and productively with nonprofit housing developers. The following observations and suggestions are in response to that request.

While we understand and support the need and utility of the FmHA farmer programs, and we do not suggest any curtailment in their funding or utilization, we do suggest that FmHA staffing and personnel policies need to keep pace with the changes in rural America, and with the legislative changes directing an increasing part of their work toward housing, rural development and community facilities.

FmHA loan officers (County Supervisors and District Directors) have tended to be graduates of agricultural colleges, hired on the basis of their agricultural training, and in many cases attracted to FmHA because of its farm programs. Until early September 1990, agricultural training was a requirement for entry level professional employees of the agency. Thus it is not surprising that the agency's farmer programs have taken precedence over housing and community facilities programs.

HAC believes the FmHA staff is as dedicated and hard-working as any group of employees anywhere, but as good employees, they try to follow the policies communicated to them by their leadership. Consequently, the modern needs of the rural communities they serve - communities in which mining, manufacturing and servicing industries are all likely to be more important than farming - are given lower priority than farming. In many rural communities, housing of all kinds is more desperately needed than assistance in developing a farm plan.

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FmHA's role in rural America is to provide credit to the entire rural community, when that credit is not otherwise available. Over the years, FmHA has been asked to assume an ever-increasing number of housing and rural development programs with social purposes. It is to the agency's credit that it has spent enormous amounts of time, effort and money in training its agricultural experts in housing, community facilities and community development. They also need, however, to expand this expertise by hiring sociologists, business or finance majors, real estate specialists, planners, and others who can serve to carry out rural development programs and to work more closely with nonprofit organizations.

The following are specific ideas and thoughts:

1. Most FmHA State offices have both a multi-family coordinator and a single-family housing specialist reporting to the Housing Chief. FmHA State offices could also have a coordinator of public and nonprofit activities, who would work not only with nonprofit housing applicants, but with cities, towns, counties and housing authorities. He/she would serve both as an ombudsman in the State office and as a technical assistance provider to public and nonprofit agencies around the state. Such an indiviudal should be recruited and hired from the nonprofit community, and report directly to the State Director rather than any of the Program Chiefs. It is HAC's view that there is already more than enough work to fully occupy such a person, but if not, that coordinator would be expected to go out and drum up nonprofit business. Forty-six such positions would cost under $3 million annually.

2. FmHA should be encouraged to utilize employees of state and local government as outreach workers and packagers. The principal cost would be in the necessary training of such extra-agency personnel, but the payoff would be in better quality applications and faster processing for FmHA. State and local government would get housing, probably in areas they selected, which might not otherwise be built. We do know that in past years New Mexico, New York and New Jersey state employees have made significant contributions to FmHA operations in their states.

3. HAC believes nonprofit organizations should earn, and be paid a fee, for packaging individual housing loan applications for both Section 502 single-family homes and for Section 504 repair loans. As with state employees they would require

training, but the community-based organizations know the need, the needy and the necessity of helping them apply. A fee of perhaps 2 percent for each approved loan (nothing for inadequate applications) would help the nonprofit with its administrative budget, provide FmHA with a steady stream of fundable applications, and most importantly, reach more families in need. The authority to charge fees is in place.

4. S.566, enacted by the Senate last Spring and now awaiting Conference with the House, has a provision (Sec 804. Housing in Underserved Areas) which contemplates small predevelopment grants to nonprofits and local governments to assist in the development of applications from areas which are clearly underserved by present programs. It is the first step in a capacity building program. Those local groups need a lot of help, both in financing and in technical assistance. A capacity building program would be a major step forward.

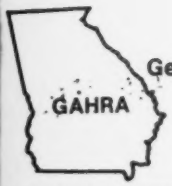
5. With fair-minded, well-meaning people, familiarity breeds not contempt, but understanding. FmHA executives could devise some method of fostering a regular interchange between field staff and the nonprofits and public agencies around the country. Perhaps each State office could periodically meet with appropriate statewide nonprofits and public agencies. District and County offices might do the same thing. The State could publish a periodic newsletter with information pertinent to the nonprofits - new applications, funding deadlines, novel applications, etc. Such a device would allow them to find out which, what and where nonprofits exist.

We very much appreciate this opportunity to respond to your question, Senator Fowler. And we appreciate even more your demonstrated interest in addressing the problems of housing rural Americans.

Respectfully

Moises Loza
Executive Director

ML/lr



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July 28, 1990

U.S. Senator Wyche Fowler, Jr., Co-Chairman
U.S. Senator Terry Sanford, Co-Chairman
U.S. Senate Budget Committee field hearing
Parks Memorial Library
112 Wall Street
Richland, Georgia

Honorable Wyche Fowler, Jr.:
Honorable Terry Sanford:

I am the Senior Vice-President of the Georgia Association of Housing and Redevelopment Authorities, Inc. (GAHRA). GAHRA represents 203 Public Housing Agencies in the State of Georgia. These agencies manage and maintain over 57,000 public housing apartments and over 22,000 section 8 certificates and vouchers. This comprises over 79,000 families or a quarter of a million people.

I would like to express our feelings concerning this meeting being held here today:

1. GAHRA is concerned with housing needy families in all areas, including rural Georgia.
2. We support the Farmers Home Administration programs.
3. We are, however, experiencing problems with Farmers Home Administration funding in certain areas. These problems consist of large numbers of vacancies caused by new Farmers Home apartments being built in areas that are not in need of additional affordable standard housing. Many times market surveyors do not consult the housing authorities or, if consulted, do not use the data gathered.
4. When the housing authorities' 25- to 30-year old apartments are renovated, HUD will not allow us to install central air conditioning units but allows only central heating systems. The Farmers Home Administration programs allow buildings to include air conditioning and carpeting in many of their apartments. We are serving the same socio-economic classes of families yet we are being discriminated against with regard to the type of housing we can provide.

5. Housing Authorities are non-profit governmental entities that are allowed to participate in Farmers Home Administration programs. We would like to request that this policy be continued and expanded. Many housing authorities have 50 or more years of experience in housing needy families. Many of these agencies are comprised of honest, hard- working individuals, in the business of providing housing to low and moderate income families. We have the knowledge and experience that is needed to house these families. We are most familiar with the regulations and requirements.
6. We also ask that future housing programs and programs for the low and moderate income families be made available to Public Housing Agencies. We hope that the practice of past legislators in excluding public housing agencies from housing- oriented programs be discontinued. Let those agencies with good success records be the new and continued providers of housing.
7. Farmers Home Administration and Housing Authorities compete in many communities for the same low and moderate income families. However, there are many differences in our programs. Some differences include preferences for admission as required by congress and the percentage of income paid for rent.
8. Housing Authorities that apply for new housing units with HUD are given preference and encouraged to apply for only large bedroom size units such as 3-, 4-, or 5-bedroom apartments. Farmers Home programs give preference to builders for the construction of one- to two- bedroom elderly apartments. Many towns across Georgia have a need for elderly housing, but housing authorities are discouraged from applying to HUD for new units.

In closing I would like to say one thing. If you really want to provide needed, affordable, standard housing for low and moderate income families and if you are looking for cost-effective institutions or partnerships to provide this housing, look to your local or nearby public housing agency. Our goal, since 1937, has been to provide affordable standard housing to low and moderate income families and to eliminate sub-standard housing throughout our nation.

Thank you for taking the time and caring for people in our communities that have so little and are in need of so much!

John C. Anderson
Senior Vice-President

TESTIMONY OF HAROLD D. HAGAN

CHAIRMAN, GEORGIA HOMEBUILDERS ASSOCIATION

RURAL HOUSING COMMITTEE

I appreciate the opportunity to present my comments regarding the Farmers Home Administration's Rural Housing Program. Presently, I am serving as Chairman of the Georgia Homebuilders Rural Housing Committee and have served in this position for the past six years. The Georgia Homebuilders Association consists of approximately 5,300 members. In addition, I also serve on the National Rural Housing Council. My interest in housing, especially rural housing and low income housing, is the result of my having been involved in the Farmers Home Housing Program since 1971. I built approximately 4,000 low income housing units.

It appears the consensus in government is non-profit organizations will be capable of taking care of low income housing needs in the future. However, with certain changes, I feel the private sector could be very beneficial in assisting in taking care of the needs of this sector of our citizens. For example, very low income monies are not being used in the state of Georgia. Presently, the very low sector is not being promoted in the state. Citizens qualifying for the very low income loans would be better served by the program if there was a relaxation of the credit criteria. For example, the government should put emphasis on whether the borrowers had made their payments and not on whether or not they were delinquent in making these payments. Also, the government should be allowed to be more lenient in working with delinquent borrowers prior to the actual foreclosure proceedings. A moratorium on payments could be offered for unusual items such as large utility bills, unexpected large auto repairs, etc. This moratorium would not be for an indefinite period but would be for one or two months. This would allow for borrowers to remain current in

their payments and their status not be jeopardized by a large unusual expenditure of which they had no control. Many of these borrowers live on a very marginal income and are not prepared for large unexpected expenditures. For example, according to the Senate Budget Committee, 33 percent of the rural poor pay over 50 percent of income for housing costs. In addition, over 50 percent of rural renters pay more than one-half of their income for housing.

It also appears there is a problem in some local offices of the agency with the agency's employees having personal preferences in the interpretation of regulations. It even appears, at times, the county offices are not in favor of the low income housing and do not promote the program. It is a well known fact you can not, or will not, promote something you do not personally believe in. I feel homebuilders in the private sector would flood the agency with applications if the agency would be more receptive to the program and would facilitate the approval of these applications.

Another item for consideration would be to transfer the loan processing and approval from the local offices and transfer to a central state location (state office). This would allow the agency to utilize existing personnel more efficiently. In addition, consideration should be given to guaranteed loans which could allow for a larger number of citizens to be served while utilizing the same amount of funds being allocated to the program. The program could be more effective if banks were allowed to make these loans with government guarantees.

A guaranteed loan program with a mandatory 60-day turnaround of processing and approval of the application would encourage realtors to get involved in the program and to help promote it. The present six-month average processing time tends to discourage realtors from getting involved in this program. Therefore, this sector of

housing is not actively promoted by our professional realtors.

A portion of the grant money should be allocated to a program which would be used to directly reduce the loan amount of very low income applicants. This would allow the applicant to be able to afford housing and keep the individual's payment at a level he would be able to survive and maintain adequate housing. A provision for recapture of all, or a portion thereof, of the money in event of sale of the home within specific periods would be an essential part of this program.

The grant money used for this purpose would result in a very worthwhile cause, expecially in "underserved" areas. The program presently allows grant money for home improvements under the Home Repair Grant provisions, therefore, this would be a further extension of the use of grant funds. Other items which should be considered would be legislation to allow the agency to accept employees with educational backgrounds other than agricultural related fields. In addition, it would be helpful to have legislation for funding of the Farmers Home Program for a five-year period rather than annual funding. Also, funds for the program should be increased back to the 1980 level.

Again, I am grateful to you for allowing me to comment on a subject of which I am a strong supporter. I also congratulate Senators Sanford and Fowler for their efforts and time devoted to rural and low income housing. This is an area in which our country needs to definitely emphasize and pursue a goal of having decent, affordable and adequate housing for all of our citizens.

Comments on the General Accounting Office's Draft Report, "Homeownership: Limiting Mortgage Assistance Provided to Owners With Rapid Income Growth"
Submitted by the National Council of State Housing Agencies
June 1, 1990

The National Council of State Housing Agencies (NCSHA) is pleased to be able to submit these comments on behalf of our member Housing Finance Agencies (HFAs) on the General Accounting Office's (GAO's) report, "Homeownership: Limiting Mortgage Assistance Provided to Owners With Rapid Income Growth." That report comments upon the MRB recapture provision of the current Internal Revenue Code.

NCSHA considers that the MRB recapture provision represents a highly complex overreaction which burdens the entire MRB program to penalize a few theoretical homebuyers whose existence is documented only anecdotally at best. Because the recapture provision is expensive to administer, raises difficult issuer and lender liability questions, and may frighten eligible homebuyers away from buying their first home, we believe it should be repealed. If it is not repealed, we believe it urgently needs substantial simplification. These NCSHA comments are limited to the simplification issue, since they are a response to the GAO report on improving the existing recapture provision.

NCSHA is a national, not-for-profit organization created in 1970 to represent the interests of State HFAs in low and moderate income housing. HFAs in every state, the District of Columbia, Puerto Rico, and the Virgin Islands respond to low and moderate income housing needs through the financing, development, and preservation of affordable rental and ownership housing. HFAs collectively operate more than 350 affordable housing programs, which range from homeownership to homeless initiatives.

NCSHA members have helped more than 1,000,000 low and moderate income Americans buy their first home through Mortgage Revenue Bond (MRB) programs in every state. These HFAs issued approximately $6 billion in MRBs in 1989 under the private activity bond cap which strictly limits the overall volume of such bonds. In 19 states, these HFAs also administer Mortgage Credit Certificate (MCC) programs. Local government agencies also administer MRB and MCC programs in several parts of the country.

NCSHA's member HFAs have also financed over 500,000 units of rental housing for low and moderate income tenants through reduced interest rate mortgages financed by tax-exempt bonds. Since 1986, NCSHA members have financed 235,000 low income rental units with the Low-Income Housing Tax Credit for households with incomes at 60 percent or less of area median.

The MRB/MCC (MRB) program, which is scheduled to expire this year, is the only generally available federal mortgage payment assistance program in today's disheartening environment of climbing home prices and declining homeownership rates. An overwhelming 85 percent majority of the Congress -- 454 of the 535 House and Senate members, including 70 percent of the members of both tax-writing committees -- have co-sponsored legislation in this Congress to extend this time-honored, well-tested, and Congressionally limited program to make the national goal of homeownership attainable by lower income Americans.

The NCSHA and its member agencies hope that Congress will this year extend MRBs permanently to eliminate what has become a pointless and time-consuming review for both Congress and MRB issuers of a program which has been tightly targeted by Congress and has proved its value and popularity in the states. At the same time, we hope Congress will substantially simplify the program's recapture requirement, found in Section 143(m) of the Internal Revenue Code, which becomes effective for MRB loans made and MCCs issued after December 31, 1990. Without such a simplification, the cost of administering the MRB program will be significantly increased without any benefit to the federal government. Moreover, deserving, but unsophisticated, borrowers may be frightened away by the complexity of the recapture provision, and many MRB-assisted homebuyers will face the need to obtain professional assistance to file their tax returns when they sell their homes.

This response to the GAO report is divided into three parts:

- First, analysis of the goals and complexity of Section 143(m) of the Internal Revenue Code, the "MRB recapture" provision enacted in 1988, which is the subject of the GAO report.

- Second, a discussion of the unfounded bias against the MRB program displayed in the GAO report which undermines the credibility of its recapture recommendations.

- Third, an analysis of the GAO's recapture recommendations.

Section 143(m): The Recapture Provision

Existing provisions of the tax code limit MRB assistance to lower income purchasers who buy less than average priced homes. The price of an MRB-financed home cannot exceed 90 percent of the average area home purchase price. MRB borrower income may not exceed 115 percent (100 percent for families of fewer than three persons) of the higher of the area or statewide median gross incomes for the area in which the residence is located.

In practice, HFAs frequently set their MRB-assisted home prices and purchaser incomes well below the federal limits. In many areas, however, housing costs are high relative to incomes. In such areas, incomes even higher than the federal limits are frequently necessary to purchase even lower priced homes, so the MRB program limits inhibit use of MRBs in these markets.

Last year, conventionally financed home prices averaged 37 percent more than State HFA MRB-financed homes. Conventional borrowers' incomes averaged 44 percent above MRB borrowers' average incomes.

Congress enacted Section 143(m) of the Internal Revenue Code in 1988 to discourage buyers who expect their income to increase faster than a simple five percent per year above the MRB program limits from using MRB mortgages. When an MRB-assisted home is resold, Section 143(m), requires MRB-assisted owners to repay to the federal government some or all of any MRB benefit they obtained while they owned the home. The amount of recapture penalty MRB purchasers might owe under Section 143(m) depends upon how much their incomes have risen, their family size at the time of sale, the size of their mortgages, and the length of time they owned their home.

NCSHA believes that the recapture proposal represents a highly complex solution to a problem of minor proportions, if a problem exists at all. Thus, NCSHA believes that the recapture provision should be simply repealed.

NCSHA agrees with the objective of discouraging those from getting an MRB mortgage for whom conventional financing is a reasonable alternative. However, the Congress has made no finding beyond anecdotal evidence of significant and rapid income growth among MRB beneficiaries. Nor has NCSHA found evidence to support the perception that MRB beneficiaries experience significant and rapid income growth. In fact, occupational surveys conducted by several HFAs suggest that MRB borrowers are not upwardly mobile families whose salaries climb rapidly, but instead are teachers, firemen, factory workers, and service industry people whose salaries rise, if at all, only at approximately the rate of inflation.

We agree that recapture may be appropriate for those whose incomes rise outside the MRB eligibility range while occupying an MRB-assisted residence. The current provision, however, is like a cannon trained upon a gnat, in terms of the complexity imposed upon the entire MRB program, to "catch" a few buyers whose incomes may rise rapidly and who may exist more in anecdote than in reality. For these reasons, we are urging the Congress to consider simplifying current law without diminishing the intended effect of recapture and to avoid adding additional complexities to the law which meet no demonstrated need.

Section 143(m) involves a process of computation which contains up to 13 sometimes complicated mathematical computations to determine the recapture amount. A summary example of how Section 143(m) would work in an ordinary home sale consumes a single-space page of the GAO report, complete with two footnotes.

When the Congress enacted the recapture provision in 1988, it delayed the effective date in order to permit consideration of alternatives to attain its policy goal. As part of that review, Congress asked GAO to study the recapture provision's effectiveness and administrability. GAO has now rendered its report.

We commend GAO for acknowledging the complexity of the recapture mechanism in that report. However, we are disappointed that GAO offers no solution to this complexity, which will confound borrowers and lenders alike and discourage their participation in the program.

The GAO suggests no simplification of the current recapture provision. Instead, demonstrating the truth of the axiom "the perfect is the enemy of the good," the GAO report poses new recapture alternatives, the cost, inconvenience, and complexity of which dwarf those of the existing version of Section 143(m) without any assurance of improving its results. In fact, GAO's proposed revisions and alternatives to the current provision would further complicate its application and are completely unworkable. Each of the GAO suggestions would add additional layers of complexity to a provision whose intended purpose can be well served by a limited simplification of its existing provisions, without the introduction of still new complications.

Possible Recapture Simplification

The current recapture provision contains up to 13 mathematical calculations to determine the recapture amount. At least one simplification (described below) of Section 143(m) reaches virtually the same mathematical result as the current law, but reduces the required mathematical computations to a maximum of eight.

Under current law, recapture is assumed to be potentially payable by all MRB purchasers, but the amount is reduced potentially to zero by application of a set of complex calculations involving up to 13 separate computations. Under a possible simplification, no recapture would be owed unless income exceeded a certain threshold level in the year of sale. That Threshold Income would be determined by multiplying .05 times the number of years the home was owned and further multiplying that result by the maximum eligible income which would have been available to a family the size of the MRB seller at the time he or she purchased the home (maximum eligible income) and adding that product to the maximum eligible income.

The current law provision calculates the maximum recapture amount by multiplying 6.25 percent times the amount of the MRB mortgage and multiplying that result by a "holding period percentage" which is derived through a two or three step calculation, depending on whether the home is sold in years one through five or in years six through ten. Under the simplification alternative, the maximum recapture amount would be determined by multiplying the original mortgage amount by .001 and multiplying that result by the number of months the home is owned up to 60. (The .001 is the result of dividing 1.25 by 12 months. Sixty months is the period during which current law recapture rises to its maximum possible amount.)

The simplification proposal differs significantly from current law in its application after year five. Current law increases the recapture amount by 1.25 percent per year to a maximum of 6.25 in year five, reduces the maximum amount by 1.25 percent per year in years six through ten and eliminates recapture after year ten. Like current law, the simplification proposal assesses the maximum recapture amount in year five, but that amount remains constant in years six and seven and recapture is eliminated in year eight. The reason for this change is that the targeted "yuppie" population will not remain in their homes beyond seven years, if they stay that long. In fact, MRB mortgage prepayment statistics indicate that the vast majority of MRB homeowners sell their homes between years five and seven. The Congress recognized this in the softening of the current recapture penalty in years five through ten. The simplification proposal just eliminates these additional and unnecessary computations.

Under current law, the actual amount of recapture is determined by adding $5000 to an income level determined in exactly the same fashion as in the simplified alternative and then reducing the total recapture amount otherwise payable by two percent for every $100 the owner's income is below this amount. Additionally, the recapture actually owed could not exceed one-half the MRB seller's net gain on the sale. Under the simplification proposal, no recapture would be owed if income did not rise over the Threshold Income. If the owner's income exceeded the threshold, recapture would equal the lowest of the following: (1) the maximum recapture amount, (2) 50 percent of the net gain on sale, or (3) .0002 times the amount of income over the threshold times the maximum recapture amount. The effect of both current law and the simplification is that for every $100 the seller's income is above the Threshold Income, the seller would pay 2 percent more of the maximum recapture amount, until it is $5,000 above the Threshold Income, at which point the seller would pay full recapture.

The actual operation of current law and the possible simplification are demonstrated in the example set out below.

The following description illustrates how current law and the proposed simplification would apply to the "Example of How to Compute the

Recapture Amount" contained in Appendix I to the GAO Report (page 52). In the example, the MRB Mortgage is $55,000; the applicable income level for the seller's household is $23,000; the home is held 6 years and 2 months; the seller's income at time of sale is $32,000; and the gain on the sale is $12,000.

Current Law - Thirteen Steps to Determine Recapture

Maximum Recapture Equals: (one step) $55,000 x .0625 = $3,438

Holding Period Adjustment: (three steps) ((120-74)/60) x $3,438 = $2,636

Income Eligibility Limit: (four steps) ($23,000 x .05 x 6) + $23,000 + $5,000 = $34,900

Recapture Reduction: (four steps) (($34,000 - $32,000)/100) x .02 x $2,636 = $1,528

Recapture Computation: (one step) $2,636 - $1,528 = $1,108

Recapture equals lesser of the Recapture Computation ($1,108), the Holding Period Adjustment ($2,636), or one-half the gain on the house ($6,000).

Simplification - Three to Eight Steps (No Recapture below Threshold Income)

Threshold Income: (three steps) ($23,000 x .05 x 6) + $23,000 = $29,900

Maximum Recapture: (two steps) $55,000 x .001 x 60 = $3,300

Adjusted Recapture: (three steps) .0002 x ($32,000 - $29,900) x $3,300 = $1,386

Recapture equals lesser of Adjusted Recapture ($1,386), Maximum Recapture ($3,300), or one-half the gain on the house ($6,000).

In this example, the recapture under the simplification proposal ($1,386) actually exceeds the recapture under current law, because current law ($1,108) reduces the recapture amount for each year over five the house is held, whereas the simplification proposal does not.

The Unfortunate Bias in the GAO Report

The GAO approach to the recapture issue not only overlooks simplification alternatives to existing law, but also reflects an unfounded and undocumented assertion that most MRB-assisted buyers need no assistance and, hence, should have to prove they cannot get credit elsewhere before they get an MRB loan.

The GAO has traditionally opposed the MRB program, which is the only federal homeownership mortgage assistance program generally available to lower income individuals and families. Today's MRB program is the product of a decade of Congressional refinement designed to tighten the MRB program as far as practicable to assure that MRB benefits are targeted to those who need them in order to qualify for homeownership at all.

Because the MRB program has been caught up with a number of other tax programs - popularly known as "the extenders" -- which have been continued from year to year during the 1980's for revenue accounting reasons, it has been reviewed about as often - five times - and amended to assure its cost-effectiveness - four times - as any tax provision ever considered. And a nearly unprecedented majority of the Congress - more than 80 percent of all Members in both Houses and 70 percent of each House's tax-writing committees - have co-sponsored legislation to continue the MRB program in its present form.

As a matter of fact, the MRB program is one of the least expensive of the "extenders" or many other provisions of the Internal Revenue Code. The Joint Tax Committee staff estimates that the MRB extension represents only about three percent of the aggregate cost of all 12 extenders.

In light of these refinements and overwhelming Congressional support, the Senate Finance Committee last year reported a permanent extension of the MRB program as part of its version of the 1989 Tax Act, notwithstanding the Gramm/Rudman Act, which has led Congress to provide only short-term extensions for other "extenders," in order to meet deficit reduction targets. That permanent MRB extension, however, along with most of the rest of the Finance Committee bill, was dropped in the subsequent maneuvering over the capital gains issue.

But just as Congress has consistently found the highly targeted, recapture-limited MRB program to be overwhelmingly worthwhile, some academic critics have persisted in comparing it to goals Congress does not share and ignoring the bulk of all the evidence which impeaches their criticism.

Regrettably, the GAO study of Section 143(m) partakes richly in this prejudice. It ignores the Congressional determination embodied in the MRB program to provide a limited chance for homeownership to lower income families. The GAO report is undermined by repeated reference to a previous

GAO report, "Homeownership: Mortgage Bonds Are Costly and Provide Little Assistance to Those In Need," in which GAO criticized the MRB program. But this 1988 report was fatally flawed, because it was based on data the GAO gathered selectively and admitted was at best inconclusive and manipulated with invalidly hypothesized assumptions about the actual real world practice of making MRB mortgages.

Proceeding on this unfounded prejudgement that the MRB program is full of undeserving participants, the GAO unsurprisingly finds fault with the recapture mechanism Congress enacted in 1988 to discourage buyers from the program who expect an extraordinary income increase or to recover the benefit from others who receive such an increase unexpectedly while MRB owners. Surprising, however, is the additional complexity and further burden GAO asks the Congress to consider imposing on the MRB program for all buyers, without any convincing statement of need for such steps based on any serious examination of current or statistically valid MRB program data.

MRB Beneficiaries Could Not Afford Homeownership Without Help

We strongly object to GAO's repeated assertion throughout its report that a majority of MRB beneficiaries could have purchased the same house without help, using a conventional mortgage. We are dismayed that GAO continues to rely on a view first expressed in its dated 1988 report, which was based on incomplete and obsolete information, contained highly controversial conclusions, and became completely irrelevant after Congress further restricted MRB eligibility and enacted the recapture provision later that same year.

NCSHA successfully rebutted the conclusions of GAO's 1988 study in a 1988 Occasional Paper of Georgetown University's Center for Public Policy prepared by Dr. Margaret Wrightson and funded by NCSHA and in a 1988 report -- *A Referendum on the American Dream* -- prepared in cooperation with the Association of Local Housing Finance Agencies, the National Association of Realtors, and the National Association of Home Builders. The findings of these reports have been supported by data collected by NCSHA in the years since their release. GAO has never updated its 1988 report to reflect the MRB program tightening Congress enacted that year, acknowledged the thorough rebuttal provided by the Georgetown and NCSHA responses, or seriously addressed the inaccuracies those studies demonstrated in GAO's conclusions regarding MRBs.

We are aware of no credible evidence that MRB beneficiaries could, as GAO claims, buy a home without help. The 1988 GAO report containing these assertions was not based on a random or impartial selection of state program data, but instead, by GAO's own admission, was conducted with a skewed methodology. As the 1988 report stated on page 16 . . ."Because we selected housing agencies judgmentally, we cannot assert that our findings are representative of qualified mortgage bond activity nationwide."

GAO's conclusions are contradicted by any impartial, statistically valid review of the same and comparable data. The Georgetown study used data from the same years as the GAO study, collected from an unbiased sampling of data from 17 HFAs. The Georgetown study included eight of the states GAO studied whose data was sufficient to permit a statistically valid review and an additional nine states selected to replace the states in the GAO study in which the data was inadequate to support a statistically valid review. These replacement states, if anything, tended to be "high cost areas," data from which would tend to support GAO's conclusions more strongly, if, indeed, those conclusions were correct.

The Georgetown study found that MRB household income and purchase price limitations established by Congress in 1980 (and gradually made more stringent since) have been very effective in targeting MRB assistance to lower income homebuyers. It revealed that many states are serving even lower income people than mandated by the federal guidelines. It found that the incomes of the population served and the prices of the homes financed with MRBs are well below those represented by conventional, or even FHA or VA, sales. According to the Georgetown study, in 1987 (the last year studied by either GAO or Georgetown), the median income of an MRB recipient was $27,000, compared to the 47 percent higher $39,600 income of the conventional buyer. The average price of a MRB-assisted home was $62,000, compared to the 34 percent higher average conventional buyer purchase price of $82,900.

The gap between MRB and conventional borrower home purchase prices and income continued to widen in 1988 and 1989. According to data compiled by the NCSHA in its Annual Survey of the 58 State HFAs, the average purchase price of an MRB-assisted home was $52,597 in 1988 and $59,377 in 1989, compared to conventionally financed average first-time buyer prices of $94,400 in 1988 and $95,000 in 1989. The average income of an MRB borrower was $23,071 in 1988 and $25,019 in 1989, compared to conventional borrower incomes of $44,200 in 1988 and $45,000 in 1989.

In addition, GAO's conclusions were based on underwriting assumptions which it invented and did not reflect actual market practice, such as the FHA underwriting standards used at that time which were commonplace in the MRB program. The underwriting ratio of permitted expenses-to-income GAO used in its study helped predetermine its conclusion that MRB recipients could have qualified for conventional loans. Standard underwriting ratios, on both conventional loans and adjustable rate mortgages, are stricter than those used by GAO. These standard ratios include a formula that penalizes the amount of the borrower's household debt in determining mortgage credit worthiness. This debt factor is often the toughest hurdle for first-time homebuyers to jump. Yet, GAO did not include it in its underwriting assumptions.

As an consequence of this bias, the GAO recommends requiring that potential MRB borrowers first obtain proof that they could not qualify for a conventional loan before receiving MRB assistance. NCSHA believes that such a requirement is unwarranted, as the existing law recapture provision is effectively designed to discourage participation in the MRB program by any potential buyers who are within the MRB income eligibility range and who may also qualify for a conventional loan. The threat of recapture will outweigh any possible MRB interest rate advantage for such buyers.

To require lenders to essentially deny conventional credit to borrowers as a precondition for making an MRB loan, could potentially cause them to issue adverse actions against borrowers which may become part of the borrowers' credit histories and may leave lenders vulnerable to legal action. Even a lesser requirement of prequalifying borrowers for both MRB and conventional loans would impose additional administrative requirements on lenders, who already have little incentive to participate in the MRB program.

GAO's Proposed Revisions and Alternatives Are Unworkable

GAO suggests that the Congress either retain the current recapture mechanism with some modifications or replace it with one of two alternative approaches. The proposed modifications to the existing recapture provision would further complicate it and make its administration more difficult without furthering recapture's public policy objective. The alternatives GAO suggests are even more complex than the current law recapture provision and would impose insurmountable administrative and financial burdens on MRB borrowers and housing agencies alike, without measurably improving recapture efficiency.

GAO's Proposed Revisions in Current Law

GAO suggests that the current law recapture provision be modified to base the recapture amount on the actual interest rate benefit received by MRB borrowers compared to conventional rates. The 1.25 percent per year provided in current law is an approximation of that benefit. Under the GAO proposal, lenders would have to document the difference in monthly principal and interest payments between the MRB loan and a comparable conventional loan at the time the MRB loan is closed. When the MRB-assisted home was later sold, the amount of recapture would be the amount of that monthly savings times the number of months the loan was outstanding.

We strongly object to this approach. First of all, it is unworkable since there is no single conventional rate to which MRB rates can be compared in most real estate markets. Rates vary from bank to bank on a daily basis. For example, the May 26 *Washington Post* survey of 19 lenders in the D.C. metropolitan area showed that these institutions offered as many as eight different effective interest rates with differences as great as 5/8 percent on

a 30-year conforming conventional loan on a single day. Thus, two identically situated borrowers could be subject to significantly different recapture amounts if they borrowed from different banks on the same day or even the same bank on different days in the same week. This is an absurd result Congress should not allow.

It is important to note that the basis for this GAO suggestion is that the present recapture provision might take too much recapture from some MRB-assisted buyers, not too little. The GAO points out that the arbitrary 1.25 percent per year recapture formula of current law overstates the benefit actually received by many MRB borrowers.

GAO's attempt to achieve mathematical perfection would, however, only further complicate an already exceedingly complex recapture formula. It would replace current law's standard calculation applicable to all MRB-assisted purchasers with documentation which would have to be individualized for each and every borrower and which would require further administrative and record keeping requirements of lenders.

Moreover, GAO would fail to obtain the parity it seeks, for some MRB owners would be required to return every dollar of MRB benefit even if they legitimately qualified for the benefit for most of the time. For example, a borrower's income could remain well within the MRB eligibility range for the first three years of owning the home and then jump considerably in the fourth year due to a change in employment or the addition of a second household income. In the year of sale, the total interest rate benefit received over the life of the loan would be recaptured, even though the benefit was deserved in at least years one through three. GAO's solution to this problem -- suspending or adjusting the benefit as income rises over the life of the mortgage-- introduces a whole new set of complexities and administrative hurdles which are discussed further on.

GAO is also concerned that MRB owners who experience large income increases might remain in their homes for long periods in order to continue receiving a benefit which they do not deserve. In addition, some MRB owners may pay little or no recapture, because the recapture penalty is phased out under existing law during the second five years of ownership and eliminated after ten. GAO also argues that this phase-out will prompt owners to stay in their homes for longer periods than they would otherwise. They suggest that the recapture amount should either increase through year ten, increase through year ten at a reduced rate, or plateau in year five and remain constant through year ten.

NCSHA believes that the so-called "yuppies," the upwardly mobile families with rapidly increasing incomes that recapture was designed to "catch," are unlikely to remain in their homes after they can afford to move. They will not stay long periods just to avoid paying recapture and, in fact, are better off selling in the early years to take advantage of the one-time

$5,000 factor added to income under current law to compute the actual recapture total.

Finally, GAO suggests that the 50 percent of "gain-on-sale" recapture limitation will cause households in low-appreciation areas to pay less recapture than comparable households in high-appreciation areas. GAO at least concedes that this result is not easily remedied for the purpose of the limitation is to leave a portion of the home equity to be applied to the purchase of a replacement home. It does not recognize that the 50 percent limitation is essentially a protection for those living in the poorest neighborhoods that they may have something left to move on with after recapture is paid.

We strongly advise the Congress to leave this protection in place. Recapture was never intended to prevent households from eventually moving up in the housing market and certainly was not designed to return owners in the poorest, least likely to appreciate neighborhoods, to renter status. Lower-income households' ability to move up is already strained under the current recapture requirement.

GAO Recommended Alternatives to the Existing Recapture Provision

The GAO suggests two possible alternatives to the current recapture provision: a "roll-over" loan approach and an income-based variable payment loan approach. The "roll-over loan" would discontinue MRB assistance when the owner's income rose by raising the interest rate on the loan to conventional rates in subsequent years. Under the income-based variable payment loan approach, housing payments would increase as a fixed percentage of income, if income rose.

Both approaches would require housing agencies or their lenders or servicers to establish a system for monitoring the income of every MRB borrower. Borrowers would be required to disclose their federal tax returns periodically. This process would be an extremely intensive, costly, and administratively complex task for servicers who must service hundreds of thousands of loans. Those servicers would have to make sure borrowers' tax returns are actually collected and reviewed, determine if the borrowers' incomes could support higher monthly payments, and when necessary, dispatch a new payment schedules to the borrowers.

Another serious problem with these approaches is that increases in income are incorrectly presumed to mean increased "ability to pay." Increased tax withholdings, utility costs, property taxes and other household costs must be considered to avoid financially overburdening homeowners and potentially triggering a loan default. To take such increased costs properly into account, a lender would have to completely re-underwrite a homeowner's loan each and every time his or her income was reviewed. This would require substantial financial information from the homeowner

and significant time and financial analysis from the lender. This is a task unprecedented in mortgage servicing.

Under the Section 8 Certificate program, income monitoring and verification is required, but the administering agency is paid a fee by the federal government to cover such costs. Moreover, unlike Section 8 where only the amount of tenant income is in question, the servicer under the GAO approach would be required to analyze the owner's income against the income which would be required to support a conventional housing payment. The substantial cost of administering such an MRB monitoring program would be passed on to all borrowers in the form of increased loan points or servicing fees.

Neither approach is practically workable, and neither improves on the fairness or effectiveness of the current law provision. The GAO suggests testing income under either approach at three and five year intervals. Since existing law recapture peaks after five years and ends after ten, these approaches would provide less disincentive for purchasers who expect extraordinary income increases than current law does, since current law imposes a definite, unavoidable penalty for any sale within ten years. In contrast, the periodic income testing approach would not impose any penalty until the year income is tested, which might be years after the assisted buyer's income rose substantially, with no recapture of the benefit received in those prior years.

Under the roll-over loan approach, as GAO acknowledges, borrowers could be required to refinance their loans, at potentially higher conventional rates than prevailed when they first took their MRB loan and, in any case, with the payment of points which might well exceed the value of any MRB subsidy received. Their inability to pay could force them out of their homes. This risk would be particularly acute when the income increase was only temporary. Establishing a market-rate at the time the borrower enters the MRB program and adjusting the original mortgage to that rate without refinancing when the borrower's income rises could overcome some of these risks. However, the difficulties involved in determining what the conventional rate is at any particular time which has already been discussed and the periodic need to examine income and all its associated costs and complexities would remain.

Under the variable payment loan approach, housing payments for principal, interest, taxes and insurance would be set at a fixed percentage of household income. As income increased, so would monthly payments. Unlike the roll-over loan which caps the interest rate at some predetermined rate, the variable payment loan allows the owner's effective interest rate to rise above the market as income continues to increase. Of course, the owner would have the option of refinancing when his or her payments exceeded payments on a conventional loan, but then would incur all of the associated costs of refinancing which might exceed the MRB

benefit received and would face the risk of not being able to service the refinanced loan.

Both of these alternatives would impose recapture on all MRB borrowers whose incomes rise steadily and conservatively over the life of their mortgage and not just the "yuppie" population Congress intended to target with recapture.

In conclusion, the current recapture provision must be substantially revised, so that it is simple, administrable, discloseable and does not adversely affect lower income borrowers. An alternative along the lines of the simplification proposal contained in these comments would achieve these goals. The revisions and alternatives GAO poses in its report would not accomplish these objectives, would in no way increase the effectiveness of recapture and in fact, would alter Congressional intent. These recommendations should be soundly rejected. The NCSHA is committed to working with the Congress to achieve a simplification of the current recapture provision which preserves Congressional intent.

RECAPTURE CALCULATION

The recapture amount with respect to any indebtedness is the amount equal to the product of:

(1) the federally subsidized amount with respect to the indebtedness, and

(2) the holding period percentage.

The federally subsidized amount is:

> The amount equal to 6.25 percent of the highest principal amount of the indebtedness for which the taxpayer was liable.

The holding period percentage is:

> The percentage determined by dividing the number of full months during which the indebtedness is federally-subsidized and the taxpayer is liable for the indebtedness in whole or part by 60, if the disposition occurs within the first five years.
>
> If the disposition occurs between years five and ten the holding period percentage is determined by dividing the excess of 120 over the number of months the indebtedness is federally-subsidized and the taxpayer is liable by 60.

Low-Income Adjustment

The recapture amount shall be reduced (but not below zero) by two percent of such amount for each $100 by which adjusted qualifying income exceeds the modified adjusted gross income of the taxpayer for such year.

The "adjusted qualifying income" means the amount equal to the sum of --

(1) $5,000, plus,

(2) the product of the highest family income which (as of the date the financing was provided) would have met the income limit requirement and the percentage equal to the sum of 100 percent plus five percent for each full year during the period beginning on that date and ending on the date of disposition.

The "modified adjusted gross income" means adjusted gross income --

increased by the amount of interest received or accrued by the taxpayer during the taxable year which is excluded from gross income under section 103, and

decreased by the amount of gain (if any) included in gross income of the taxpayer by reason of disposition of the residence.

NCSHA Recapture Analysis

			Formulas
Current Law Recapture			
A.	Original Borrower Income	$20,000	
B.	Original Income Limit	$23,000	
C.	Original Mortgage Amount	$55,000	
D.	Months Held	74	
E.	Gain on Sale	$12,000	
F.	Income At Sale	$32,000	
G.	Percent Increase in Income	10%	
H.	Estimated Income Eligibility Limit	$34,900	= ((B. x .005) x 6) + B.) + $5,000
I.	Maximum Recapture	$3,438	= (0.0625 x C.)
J.	Recapture Amount	$2,635	= ((120 - 74) / 60) x I.)
K.	Adjusted Recapture Amount	$1,107	= (J. - ((((H. - F.) / 100) x .002) x J.))
L.	Subject to 50 % Gain Limitation	No	= IF(K. > E., E. / 2, "No")
Simplification Proposal			
a.	Estimated Income Eligibility Limit	$29,900	= ((B. x (.005 x 6) + B.)
b.	Maximum Possible Recapture Amount	$3,300	= ((.001 x C.) x D.)
c.	Subject to 50 % Gain Limitation	No	= IF(b. > E., E. / 2, "No")
d.	Actual Recapture Amount	$1,386	= (.0002 x (F. - a.)) x b.

Proposed Simplification

Our simplification involves four to seven mathematical calculations:

Maximum Recapture Amount = Original Mortgage x .001 x Months Owned Up to 60

Income Threshold = Maximum eligible income at purchase x (.05 x years owned) + Maximum eligible income at purchase

Actual Recapture is: Zero if income at sale is below threshold

or

The lowest of:

A) Maximum recapture amount

B) .02 x $\frac{\text{Income over Threshold}}{100}$ x Maximum recapture amount

C) .50 of Net Gain on Sale

* No recapture is due if the home is owned for 84 months or more.

Present Recapture

The present recapture method contains 8 to 16 mathematical calculations in a two step process.

First Step: Four Mathematical Calculations

If you own for five years or less, the recapture amount is:

$$\text{Original mortgage} \times .0625 \times \frac{\text{(months of ownership)}}{60}$$

If you own between six and ten, the recapture amount is:

$$\text{Original Mortgage} \times .0625 \times \frac{\text{(120 - months of ownership)}}{60}$$

If you own for more than ten years, the recapture amount is zero.

Second Step: Four to 12 Mathematical Calculations

A. If the income at sale is $\geq$ Maximum eligible income at purchase x 5% x years of ownership + Maximum eligible income at purchase ÷ $5,000

then pay the product of first step,

B. If the income at sale is less under A. above,

then pay the product of first step minus

$$\frac{\text{Maximum eligible income at purchase x 5\% x years of ownership + Maximum eligible income at purchase + \$6,000 - income at sale}}{100} \times .02 \times \text{amount of recapture}$$

MRB RECAPTURE DISCLOSURE

Recapture only occurs if the borrower's income in the year of sale exceeds the income indicated below.

Original Mortgage Amount $55,000

Original Income Limit $23,000
Established According to Family Size At Sale

Months Home Owned	Income in Year of Sale	Maximum Possible Recapture
1 - 12	$24,150	$660
13 - 24	$25,300	$1,320
25 - 36	$26,450	$1,980
37 - 48	$27,600	$2,640
49 - 60	$28,750	$3,300
61 - 72	$29,900	$3,300
73 - 80	$31,050	$3,300
Over 80	NONE	NONE